

Senvest Capital Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

March 31, 2018



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 condensed interim consolidated financial statements as at and for the period ended March 31, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The trends which marked the strong equity market performance of 2017 continued into the New Year, with the S&P 500 posting its best January performance since 1997. The NYSE FANG+ Index surged 15% (an equal-dollar weighted index designed to represent a segment of the technology and consumer discretionary sectors consisting of highly-traded growth stocks of technology and tech-enabled companies such as Facebook, Apple, Amazon and Alphabet's Google). However it was not to last. After nearly two years without one, the S&P 500 officially entered correction territory in early February, falling -10.2% from its January 26, 2018 all-time closing high. At that time Bloomberg reported that the S&P 500 Index's 14-day relative strength index – a technical gauge of the magnitude and speed of price movements – had swung 57 points lower over those two weeks. This represented the “largest momentum swing in history” according to a Bloomberg macro strategist. Whatever the cause of the violent sell-off – fears of inflation and higher interest rates or the unwind of positions by risk parity funds – the Russell 2000 (comprised of small cap stocks and the index we view as our closest benchmark) had retraced to its September-end level, giving back about one-third of a year's worth of gains. The VIX (a volatility index established by the Chicago Board Options Exchange which measures investors' expectation of 30-day volatility in the S&P 500), commonly called the “fear” gauge, in February soared to its highest level since August 2015. Equity markets managed to bounce from these early February correction levels but still ended in negative territory for the month. The month of March also resulted in broad equity markets slipping down likely in response to the announcement by the Trump administration of tariffs on steel and aluminum, raising concerns of a potential trade war as Europe responded with proposed retaliatory tariffs. Major tech stocks in particular also had a poor showing, with a number of “FANG” stocks suffering from either consumer data compromise (Facebook) or the targeted ire of the President's tweets (Amazon). The Russell 2000, consisting largely of domestic, small cap stocks less exposed to risks of a global trade war and big cap tech, posted a positive month.

Senvest Capital (“Senvest” or the “Company”) experienced a relatively flat first quarter, outperforming broader equity indices which were down for the period. This was far different than the first quarter of 2017 that had better performing markets and far lower volatility. Some of the largest holdings as at March 31, 2018 were, Paramount Resources (POU), Radware (RDWR), Mellanox Technologies (MLNX), Tower Semiconductors (TSEM), Quotient Technology (QUOT), and Northstar Realty Europe (NRE). (When the Company refers to its portfolio of holdings, the reference is to its aggregate portfolio including those in the funds that are consolidated into the accounts of the Company). While Canadian oil and gas exploration and production company POU was one of the top gainers in 2017 it was the biggest loser in the first quarter of 2018. It suffered a price decline of 23%. The company reported Q4 adjusted cash flow per share (before capital spending) ahead of estimates, including an increase in reserve estimates of 34%. Moreover, liquids now represent about 39% of reserves, up from 33% last year. Production results would have been even better if not for unplanned third party pipeline outages which shut-in about 7,000 boe/day in December. Capital spending, however, was higher than expected. We continue to believe that investors underappreciate POU's potential and the creation of significant shareholder value that will come from the company's capital investment program and efforts to double production per share over the next few years.

Analog semiconductor foundry TSEM was our largest gainer in 2017. However in 2018 it got caught up in a dump of technology stocks that occurred in the first quarter. It suffered a price decline of 20% following weaker- than-expected March quarterly guidance. The company attributed the weakness to seasonality in both its RF and Power Management markets. After three years of share gains offsetting typical semiconductor industry seasonality, decisions in 2017 to not bid on lower margin discrete RF business in order to free up capacity for newer high margin products impacted Q1 revenues. We believe that demand for integrated optical and RF chips, as well as new power management initiatives should re-accelerate revenues into the second half of 2018. TSEM continues to trade at low valuation multiples on operating cash flow, earnings, and at a meaningful discount to its peers in the semiconductor foundry industry.

RDWR's stock price increased +10% in the first quarter and remains a top investment. The company continues to undergo a business transformation from selling hardware-based application delivery controllers (ADC) to providing cyber security software and cloud services. Both RDWR and the industry are quickly transitioning away from traditional perpetual licenses and maintenance-based sales with no fundamental change in its business. In the first quarter increases in RDWR, MLNX and QUOT basically offset the declines in POU and TSEM.

Senvest recorded a net loss attributable to common shareholders of (\$9.7) million or (\$3.55) per basic and diluted common share for the period ended March 31, 2018. This compares to a net income attributable to common shareholders of \$47.8 million or \$17.24 per basic and diluted common share for the corresponding period in 2017. For the quarter, the US dollar strengthened against the Canadian dollar and the result was a currency translation gain of about \$26 million from the net loss attributable to common shareholders. This amount is not reported in the Company's income statement rather it is reflected in its Comprehensive income. As a result the comprehensive income attributable to common shareholders was \$16.4 million

The Company's income from equity investments in 2018 was the biggest contributor to the results but was much less than the corresponding amount in 2017. The net gain on equity investments and other holdings (and also securities sold short and derivative liabilities) totalled \$19.3 million in the current quarter versus \$123.1 million in 2017.

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. Interest expense is also significantly higher than the prior period due to both higher interest rates and higher short rebate costs.

The Senvest Master Fund (Senvest Partners Fund) is focused primarily on small and mid-cap companies. The fund recorded a small profit of 0.64% net of fees for the quarter. With most of the long portfolio invested in small and mid-cap stocks, the fund outperformed its most relevant benchmark, the Russell 2000 which was slightly down for the quarter. The fund outperformed the S&P 500 index (which was also slightly down) 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 1.64% net of fees for the quarter (monthly results of both funds can be found on the Company's website). The two funds had over \$1.6 billion of net assets under management at March 31, 2018. Both of these funds are consolidated into the accounts of the Company.

The Company has a portfolio of real estate investments as at March 31, 2018. One part of this amount represents investments in different US REITs. These REITs are not publicly traded and there is no established market for them. The most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties of the REITs and the distribution to its holders. Also, there are minority interests in private entities whose main assets are real estate properties. As described above for the REITs, the most likely scenario for a disposal of these holdings is an eventual sale of the underlying real estate properties.

The Company also has investment properties in lands and buildings used to earn rental income. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties will be remeasured at fair value, using the fair value model. The fair value is based on external valuations from third party 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 Rivas SL and Coldstream SL (the acquirees) on January 16, 2017. The payment was cash consideration of approximately \$9.9 million. The transaction was accounted for under the purchase method. The net assets of the acquired companies were valued at fair value and there was no resulting goodwill on the purchase. There was no contingent consideration nor any non-controlling interests that arose due to the transaction. The related debt against these investment properties as at March 31, 2018 totaled approximately \$4.3 million and has been included as part of Trade and other payables.

The Company consolidates the Senvest Management LLC entity that serves as the investment manager of Senvest Partners and Senvest Israel Partners as well as the general partners of the funds. The portion of the expected residual returns of structured entities that do not belong to the Company is reflected as a non-controlling interest on the statement of financial position. This non-controlling interest is owned by an executive of the Company and totaled \$124.5 million as at March 31, 2018 from \$119.9 million as at December 31, 2017.

At the end of March 31, 2018, Senvest had total consolidated assets of \$2,997.3 million versus \$2,976.0 million at the end of 2017. The change in total assets was relatively minor. Equity investments and other holdings decreased to \$2,372.6 million from \$2,533.1 million in December 2017. The Company purchased \$406.4 million of investment holdings in the period and sold \$542.0 million of such holdings. The Company's liabilities slightly increased to \$1,916.3 million this quarter versus \$1,912.6 million in 2017. A contributor to this increase was a \$55.9 million change in the liability for redeemable units. The securities sold short and derivative liabilities decreased by approximately \$20.2 million from the end of the prior year. The proceeds of securities sold short were \$942.4 million and the amount of shorts covered was \$875.4 million in the quarter. Both these figures were more than the corresponding amounts for the prior year's quarter. As a whole, the first quarter of 2018 year was more volatile than the corresponding period in 2017.

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 March 31, 2018, the Company had listed sufficient equity securities that it can sell to reduce its floating rate debt to zero.

Currency risks

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

Equity price risk

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

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

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

The impact of a 30% change in the market prices of the Company's equity holdings with quoted value and derivatives, securities sold short and derivative liabilities as at March 31, 2018 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	2,226,444	2,894,377	1,558,511
Securities sold short and derivative liabilities	(882,100)	(1,146,729)	(617,470)
Pre-tax impact on net earnings		403,303	(403,303)

Liquidity risk

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

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

Credit risk

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

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

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

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

Capital risk management

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Total net liabilities	\$1,426.2	\$1,612.6
Total equity	\$ 1,081.0	\$ 1,063.4
Net liabilities to capital ratio	1.32	1.52

The Company's goal is to maintain its net liabilities to capital ratio below 2.0 in order to limit the amount of risk. The Company defines its net liabilities to equal its total liabilities less its due from brokers. The Company believes that limiting its net liabilities to capital ratio in this manner is the best way to control risk. The Company's net liabilities to capital ratio was at 1.32 at the end of March 2018 from 1.52 at the end of 2017.

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 March 31, 2018, approximately 90% of the Company's portfolio was invested

in Level 1 securities. The Company monitors its Level 1 securities as percentage of its total investments; however, it does not have a fixed number that this percentage cannot fall below.

Critical accounting estimates and judgments

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

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

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

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

Fair value estimates of financial instruments

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

Financial instruments in Level 1

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

Financial instruments in Level 2

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

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

Financial instruments in Level 3

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

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

As at March 31 2018, Level 3 instruments are in various entities and industries. The real estate investments are made up of investments in private real estate companies and in real estate income trusts. 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	Net income (loss)- common shareholders	Earnings per share
2018-1	23,331	(9,704)	(3.55)
2017-4	2,234	491	0.29
2017-3	236,284	74,964	27.10
2017-2	121,348	42,669	15.40
2017-1	129,106	47,843	17.24
2016-4	64,623	26,923	9.67
2016-3	328,896	109,942	39.08
2016-2	73,023	14,748	5.22

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

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

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

On August 14, 2017, Senvest commenced a new normal course issuer bid to purchase a maximum of 82,000 of its own common shares until August 13, 2018. There were 39,200 shares repurchased under the new bid and 13,800 purchased for the quarter. The number of common shares outstanding as at March 31, 2018 was 2,725,924 and as at May 7, 2018 was 2,711,224. There were no stock options outstanding as at March 31 2018 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.

Accounting standards and amendments issued but not yet adopted

The Company presents the developments that are relevant to its activities and transactions. The following revised standards and amendments are not mandatory for March 31, 2018 reporting periods and have not been applied in preparing these consolidated financial statements. The Company has not early adopted these standards and amendments.

- IFRS 16, Leases, was published in January 2016 by the IASB. This standard will replace the current guidance in IAS 17, Leases, and require lessees to recognize an asset and a lease liability reflecting a "right-of-use asset" and future lease payments, respectively, for virtually all lease contracts. The standard applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 is adopted. The Company is currently assessing the impact of this standard on the consolidated financial statements. The operating leases disclosed in note 20 to the 2017 audited consolidated financial statements are in scope with IFRS 16.
- IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures, were amended in 2014 to address an inconsistency between those standards when accounting for the sale or a contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, whereas a partial gain is recognized when the transaction involves assets that do not constitute a business. The mandatory effective date of this amendment will be determined by the IASB at a future date. Voluntary application is permitted

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 \$124.5 million as at March 31, 2018 from \$119.9 million as at December 31, 2017.

Significant Equity Investments

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

FORWARD LOOKING STATEMENTS

This MD&A contains "forward looking statements" which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may", "would", "could", "will", "anticipate", "believe", "plan", "expect", "intend", "estimate", "aim", "endeavour", "likely", "think" and similar expressions have been used to identify these forward looking statements. These statements reflect our current beliefs with respect to future events and are based on information currently available to us. Forward looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward looking statements including, without limitation, those Risk Factors listed in the Company's annual information form. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward looking statements contained in this MD&A. These forward looking statements are made as of May 11, 2018 and will not be updated or revised except as required by applicable securities law.

OTHER FINANCIAL INFORMATION

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

INTERNAL CONTROLS

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2018, 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

May 11, 2018

(Management Discussion and Analysis ("MD&A") provides a review of Senvest Capital Inc.'s operations, performance and financial condition for the period ended March 31, 2018, and should be read in conjunction with the 2017 annual filings. Readers are also requested to visit the SEDAR website at www.sedar.com for additional information. This MD&A also contains certain forward-looking statements with respect to the Corporation. These forward-looking statements, by their nature necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control may ultimately prove to be incorrect.)

Senvest Capital Inc.

Interim Consolidated Statements of Financial Position (Unaudited)

(in thousands of Canadian dollars)

	Note	As at March 31, 2018 \$	As at December 31, 2017 \$
Assets			
Cash and cash equivalents		36,798	53,122
Restricted short-term investments		460	460
Due from brokers		489,439	299,996
Equity investments and other holdings	5	2,372,561	2,533,174
Investments in associates		13,537	12,681
Real estate investments		31,418	30,789
Investment properties		28,934	26,738
Income taxes receivable		6,886	13,771
Other assets		17,277	5,295
Total assets		2,997,310	2,976,026
Liabilities			
Bank advances		-	2,276
Trade and other payables		33,614	29,130
Due to brokers		11,749	16,784
Securities sold short and derivative liabilities	5	897,269	917,511
Redemptions payable		-	10,265
Subscriptions received in advance		-	16,992
Deferred income tax liabilities		41,564	43,485
Liability for redeemable units		932,096	876,198
Total liabilities		1,916,292	1,912,641
Equity			
Equity attributable to common shareholders			
Share capital		22,640	22,751
Accumulated other comprehensive income		148,093	122,019
Retained earnings		785,744	798,718
Total equity attributable to common shareholders		956,477	943,488
Non-controlling interests		124,541	119,897
Total equity		1,081,018	1,063,385
Total liabilities and equity		2,997,310	2,976,026

The accompanying notes 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 (Loss)

(Unaudited) For the three-months ended March 31, 2018 and 2017

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

	2018 \$	2017 \$
Revenue		
Interest income	3,089	1,072
Net dividend income (expense)	(2,140)	5,262
Other income	267	776
	<hr/> 1,216	<hr/> 7,110
Investment gains		
Net change in fair value of equity investments and other holdings	19,291	123,082
Net change in fair value of real estate investments	1,496	951
Share of profit of associates	584	617
Foreign exchange gain (loss)	744	(2,654)
	<hr/> 22,115	<hr/> 121,996
Total revenue and net investment gains	<hr/> 23,331	<hr/> 129,106
Operating costs and other expenses		
Employee benefit expense	7,288	6,518
Interest expense	12,827	6,620
Transaction costs	2,870	2,448
Other operating expenses	3,449	3,589
	<hr/> 26,434	<hr/> 19,175
Change in redemption amount of redeemable units	<hr/> 4,677	<hr/> 42,239
Income (loss) before income tax	<hr/> (7,780)	<hr/> 67,692
Income tax expense	640	9,496
Net income (loss) for the period	<hr/> (8,420)	<hr/> 58,196
Net income (loss) attributable to:		
Common shareholders	(9,704)	47,843
Non-controlling interests	1,284	10,353
Earnings (loss) per share attributable common shareholders		
Basic and Diluted	(3.55)	17.24

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

Senvest Capital Inc.

Interim Consolidated Statements of Comprehensive Income (Loss) (Unaudited) For the three-months ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	2018	2017
	\$	\$
Net income (loss) for the period	(8,420)	58,196
Other comprehensive income (loss)		
Currency translation differences	29,434	(7,330)
	<hr/>	<hr/>
Comprehensive income for the period	21,014	50,866
	<hr/>	<hr/>
Comprehensive income attributable to:		
Common shareholders	16,370	41,303
Non-controlling interests	4,644	9,563

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

Senvest Capital Inc.

Interim Consolidated Statements of Changes in Equity (Unaudited) For the three-months ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	Attributable to common shareholders				Non-controlling interests \$	Total equity \$
	Share capital \$	Accumulated other comprehensive income \$	Retained earnings \$	Total \$		
Balance – December 31, 2016	23,057	180,596	640,816	844,469	98,093	942,562
Net income for the period	-	-	47,843	47,843	10,353	58,196
Other comprehensive loss	-	(6,540)	-	(6,540)	(790)	(7,330)
Comprehensive income (loss) for the period	-	(6,540)	47,843	41,303	9,563	50,866
Repurchase of common shares	(33)	-	(681)	(714)	-	(714)
Contributions from non-controlling interest	-	-	-	-	259	259
Balance – March 31, 2017	23,024	174,056	687,978	885,058	107,915	992,973
Balance – December 31, 2017	22,751	122,019	798,718	943,488	119,897	1,063,385
Net income (loss) for the period	-	-	(9,704)	(9,704)	1,284	(8,420)
Other comprehensive income	-	26,074	-	26,074	3,360	29,434
Comprehensive income (loss) for the period	-	26,074	(9,704)	16,370	4,644	21,014
Repurchase of common shares	(111)	-	(3,270)	(3,381)	-	(3,381)
Balance – March 31, 2018	22,640	148,093	785,744	956,477	124,541	1,081,018

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

Senvest Capital Inc.

Interim Consolidated Statements of Cash Flows

(Unaudited) For the three-months ended March 31, 2018 and 2017

(in thousands of Canadian dollars)

	Note	2018 \$	2017 \$
Cash flows provided by (used in)			
Operating activities			
Net income (loss) for the period		(8,420)	58,196
Adjustments for non-cash items	6a	(19,779)	(76,760)
Purchase of equity investments and other holdings held for trading		(406,390)	(261,442)
Purchase of equities sold short and derivative liabilities		(875,379)	(491,740)
Proceeds on sale of equity investments and other holdings held for trading		542,025	358,573
Proceeds from securities sold short and derivative liabilities		942,434	506,682
Dividends and distributions from real estate investments		1,967	951
Changes in working capital items	6b	(184,344)	(59,296)
Net cash provided by (used in) operating activities		(7,886)	35,164
Investing activities			
Transfers to restricted short-term investment		13	(4)
Purchase of real estate investments		(248)	(826)
Purchase of investment properties		(869)	(3,817)
Purchase of equity investments and other holdings as fair value through profit or loss		(1,616)	-
Proceeds on sale of equity investments and other holdings as fair value through profit or loss		-	11
Proceeds from investments in associates		90	94
Acquisition of subsidiaries, net of cash acquired		-	(9,919)
Net cash used in investing activities		(2,630)	(14,461)
Financing activities			
Decrease in bank advances		(2,295)	(502)
Repurchase of common shares		(3,381)	(714)
Proceeds from issuance of redeemable units		14,505	12,303
Amounts paid on redemption of redeemable units		(15,404)	(14,708)
Net cash used in financing activities		(6,575)	(3,621)
Increase (decrease) in cash and cash equivalents		(17,091)	17,082
Effect of changes in foreign exchange rates on cash and cash equivalents		767	(31)
Cash and cash equivalents – Beginning of period		53,122	26,978
Cash and cash equivalents – End of period		36,798	44,029
Amounts of cash flows classified within operating activities:			
Cash paid for interest		13,930	6,784
Cash paid for dividends on equities sold short		4,124	2,381
Cash received on interest		3,611	751
Cash received on dividends		2,061	9,199
Cash paid for income taxes		712	5,644

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

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

(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”.

2 Summary of significant accounting policies

Basis of preparation

These unaudited condensed interim financial statements for the three months ended March 31, 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34, ‘Interim financial reporting’. The unaudited condensed interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS.

Except as described below, the accounting policies applied in these unaudited condensed interim financial statements are the same as those applied in the audited consolidated financial statements for the year ended December 31, 2017.

The Board of Directors (Board) approved these condensed interim consolidated financial statements for issue on May 11, 2018.

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.

New and amended accounting standards adopted in 2018

On January 1, 2018, the Company adopted IFRS 9, ‘Financial Instruments’, which replaced IAS 39, ‘Financial Instruments: Recognition and Measurement’ and IFRS 15, ‘Revenue from Contracts with Customers’ which replaced IAS 18, ‘Revenue’ and IAS 11, ‘Construction Contracts’.

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

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

Adoption of IFRS 9, 'Financial Instruments'

The adoption of IFRS 9, 'Financial Instruments' has not had a meaningful impact on the financial position or results of the Company. The Company applied IFRS 9, 'Financial Instruments' at the date of initial application retrospectively in accordance with IAS 8, 'Accounting policies, Changes in Accounting Estimates and Errors'. The adoption of this standard resulted in changes in accounting policies but no adjustment to the amounts recognized in the consolidated financial statements.

The standard introduced new guidelines by which to classify and measure financial instruments. The guidelines focus the determination of classification on the nature of future cash flows and the Company's business model in which the financial instrument are evaluated and reported on. As in the past, the determining factor of classification for the Company's financial instruments has been their business model and as a result their classification has remained the same with some minor differences. Under IAS 39, the company designated its non-trading financial assets as through profit and loss. Under IFRS 9, unless the financial asset's cash flows fulfill the purpose of being "Solely payments of principal and interest" and are held within a business model to primarily collect payments of principal and interest and or sell, the financial instrument will be classified as through profit and loss, therefore the designation is no longer required.

Adoption of IFRS 15, 'Revenue from Contracts with Customers'

The adoption of IFRS 15, 'Revenue from Contracts with Customers' has not had a meaningful impact on the financial position or results of the Company. The Company applied IFRS 15, 'Revenue from Contracts with Customers' at the date of initial application retrospectively in accordance with IAS 8, 'Accounting policies, Changes in Accounting Estimates and Errors'. The revenues within the scope of IFRS 15 'Revenue from Contracts with Customers' are not meaningful and as such, the adoption of this standard resulted in changes in accounting policies but no adjustment to the amounts recognized in the consolidated financial statements.

The standard 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.

Basis of measurement

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

Financial assets and liabilities

The company adopted IFRS 9, 'Financial Instruments' on a retrospective basis for the first time in these condensed interim consolidated financial statements. The adoption of this standard resulted in changes in accounting policies but no adjustment to the amounts recognized in the consolidated financial statements.

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

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

Classification and measurement

IFRS 9 requires a principles-based approach to the classification of financial assets based on an entity's business models and the financial asset's contractual cash flow characteristics. Business models are determined on initial application of IFRS 9 and contractual cash flows characteristics are assessed to determine whether they are "Solely payments of principal and interest" (SPPI).

Financial assets, including hybrid contracts, will be classified as either amortized cost, fair value through other comprehensive income (FVOCI), or the residual classification of fair value through profit and loss (FVTPL).

Financial assets with cash flow that are SPPI and are held within a business model where the objective is to hold the financial assets in order to collect contractual cash flows ("Hold to collect" business model) will be measured at amortized cost.

Financial assets with cash flow that are SPPI and are held within a business model where the dual objective is to hold the financial assets in order to collect contractual cash flows and selling financial assets ("Hold to collect and sell" business model) will be measured at FVOCI.

Financial assets with cash flow that are SPPI but are not held within the "Hold to collect" or "Hold to collect and sell" business models will be measured at FVTPL.

Financial assets that do not meet the SPPI conditions are measured at FVTPL.

Equity investments held for trading are classified as FVTPL. For all other equity investments that are not held for trading, the Company, on initial recognition, may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial liabilities are measured at amortized cost unless they must be measured at fair value through profit or loss (such as instruments held for trading or derivatives) or if the Company elects to measure them at fair value through profit or loss.

The Company assess its business models at the individual subsidiary level. Information that is considered in determining the business models includes policies and objectives for the financial instrument held in each subsidiary, how risk and performance is measured at the subsidiary level and reported to management and expected future events for the financial instrument with respect to valuation, holding period and selling. All of the Company's subsidiary's financial assets are managed on a fair value basis. The company does not hold any long-term financial assets with the intent of generating solely payments of principal and interest.

Financial instruments managed on a fair value basis and those that are held for trading are measured at fair value through profit and loss.

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

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

i) Financial assets and financial liabilities held for trading

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

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

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

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

Financial assets managed 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 way 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 contractual rate on an accrual basis. Dividend expense on equities sold short is included in net dividend income.

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

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

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.

Financial assets at amortized cost

Classification

Financial assets at amortized cost are non-derivative financial assets with cash flows that are “Solely from the payment of principal and interest” (SPPI).

The company’s financial assets at amortized cost consist of 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

At initial recognition, the Company measures its financial assets at its fair value plus transactions costs incurred. The amortized cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts the estimated future cash receipt through the expected life of the financial asset to the gross carrying amount of a financial asset. The calculation does not consider expected credit losses and includes transaction costs premiums or discounts and fees paid that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimate of future cash flows, the carrying amount of the respective financial asset is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets.

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

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

Financial liabilities at amortized cost

Classification

The Company's financial liabilities at amortized cost are non-derivative liabilities that comprise bank advances, trade and other payables, due to brokers, redemptions payable and subscriptions received in advance.

Recognition, derecognition and measurement

Trade and other payables are initially recognized at the amount required to be paid. 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.

The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability to the amortized cost of a financial liability. The calculation includes transaction costs that are integral to the effective interest rate.

When the Company revises the estimate of future cash flows, the carrying amount of the respective financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Impairment

IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses on all financial assets at amortized cost or at fair value through other comprehensive income (other than equity instruments). The expected credit loss must also consider forward looking information to recognize impairment allowances earlier in the lifecycle of a financial asset.

IFRS 9 introduces a three-stage approach to impairment as follows:

- Stage 1 The recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not
- Stage 2 Lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and
- Stage 3 Lifetime expected credit losses for financial instruments which are credit impaired

All of the Company's financial assets at amortized cost are short-term assets and from sources with low credit risk. The Company will continue to monitor its financial assets measured at amortized cost and counterparty risk.

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

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

Hedging

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.

The Company did not enter any hedge arrangements and as such has not had to apply the hedging requirements from IFRS 9

Due from and to brokers

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

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

An allowance for impairment against due from brokers is calculated when there is objective evidence that the Company will not be able to collect all amounts due from the relevant broker. Impairment allowance will be calculated at three stages or at the applicable stage once impairment is evident.

Stage 1 Impairment is calculated based on 12 month expected losses

Stage 2 lifetime expected credit losses is calculated for which credit risk has increased significantly since initial recognition; and

Stage 3 lifetime expected credit losses for financial instruments which are credit impaired

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 standards and amendments are not mandatory for March 31, 2018 reporting periods and have not been applied in preparing these consolidated financial statements. The Company has not early adopted these standards and amendments.

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

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

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

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

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.

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.

Senvest Capital Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2018

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

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 Fair value measurement of financial instruments

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) March 31, 2018

(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 March 31, 2018 and December 31, 2017.

	As at March 31, 2018			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Financial assets held for trading				
Equity securities	2,145,166	963	-	2,146,129
Debt securities	-	49,805	-	49,805
Derivative financial assets	-	79,950	-	79,950
Financial assets at fair value through profit or loss				
Equity securities	2,119	7,299	82,700	92,118
Debt securities	-	1,980	2,579	4,559
Real estate investments	-	-	31,418	31,418
	2,147,285	139,997	116,697	2,403,979
Liabilities				
Financial liabilities held for trading				
Equity holdings sold short	875,470	-	-	875,470
Debt securities	-	14,711	-	14,711
Derivative liabilities	-	7,090	-	7,090
	875,470	21,801	-	897,271
As at December 31, 2017				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Financial assets held for trading				
Equity securities	2,303,077	10,395	-	2,313,472
Debt securities	-	50,029	12,569	62,598
Derivative financial assets	5,367	80,361	-	85,728
Financial assets at fair value through profit or loss				
Equity securities	2,133	8,821	60,422	71,376
Real estate investments	-	-	30,789	30,789
	2,310,577	149,606	103,780	2,563,963
Liabilities				
Financial liabilities held for trading				
Equity holdings sold short	892,203	-	-	892,203
Debt securities	-	15,696	-	15,696
Derivative liabilities	-	9,612	-	9,612
	725,798	25,308	-	917,511

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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.

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As at March 31, 2018 and December 31, 2017, 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:

	Real estate investments \$	Unlisted equity securities \$	Total \$
As at December 31, 2016	35,938	43,108	79,046
Transfers out of level 3	(1,078)	-	(1,078)
Purchases	2,561	25,412	27,973
Sales proceeds	-	(21,111)	(21,111)
Distributions	(8,199)	-	(8,199)
Gains (losses) recognized in net income			
On financial instruments held at end of year	3,814	18,430	22,244
On financial instruments disposed of during the year	-	11,132	11,132
Currency translation adjustments	(2,247)	(3,980)	(6,227)
As at December 31, 2017	30,789	72,991	103,780
Purchases	248	20,218	20,466
Sales proceeds	-	(12,901)	(12,901)
Distributions	(1,967)	-	(1,967)
Gains recognized in net income (loss)			
On financial instruments held at end of year	(471)	2,491	2,020
On financial instruments disposed of during the year	1,967	253	2,220
Currency translation adjustments	852	2,227	3,079
As at March 31, 2018	31,418	85,279	116,697

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

Equity investments and other holdings

	As at March 31, 2018 \$	As at December 31, 2017 \$
Assets		
Financial assets held for trading		
Equity securities	2,146,130	2,313,472
Debt securities	49,805	62,598
Derivative financial assets (ii)	79,950	85,728
	<u>2,275,885</u>	<u>2,461,798</u>
Financial assets at fair value through profit or loss (i)		
Equity securities	2,130	2,143
Unlisted equity securities	9,267	8,811
Debt securities	2,579	-
Private investments (iii)	82,700	60,422
	<u>2,372,561</u>	<u>2,533,174</u>
Current portion	<u>2,275,885</u>	<u>2,461,798</u>
Non-current portion	<u>96,676</u>	<u>71,376</u>

Equities sold short and derivative liabilities

	As at March 31, 2018 \$	As at December 31, 2017 \$
Liabilities		
Financial liabilities held for trading		
Equities sold short		
Listed equity securities	875,470	892,203
Debt securities	14,709	15,696
Derivatives (ii)	7,090	9,612
	<u>897,269</u>	<u>917,511</u>

- i) The Company's has adopted IFRS 9, "Financial instruments". The standard introduced new guidelines by which to classify and measure financial instruments. The guidelines focus the determination of classification on the nature of future cash flows and the Company's business model in which the financial instrument are evaluated and reported on. As in the past, the determining factor of classification for the Company's financial instruments has been their business model and as a result their classification has remained the same with some minor differences. Under IAS 39, the company "designated" its non-trading

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financial assets as through profit and loss. Under IFRS 9, financial instrument are classified as through profit and loss unless certain conditions are met, see the accounting policy note 2.

- ii) 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.
- iii) 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.

6 Supplementary information to consolidated statements of cash flows

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

	2018	2017
	\$	\$
Net change in fair value of equity investments and other holdings	(19,291)	(123,082)
Net change in fair value of real estate investments	(1,496)	(951)
Share of loss of associates, adjusted for distributions received	(584)	(617)
Change in redemption amount of redeemable units	4,677	42,239
Deferred income tax	(3,085)	5,651
	<u>(19,779)</u>	<u>(76,760)</u>

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

	2018	2017
	\$	\$
Decrease (increase) in		
Due from brokers	(177,643)	(74,263)
Income taxes receivable	7,130	(1,756)
Other assets	(11,821)	526
Increase (decrease) in		
Trade and other payables	3,386	(122)
Due to Brokers	(5,396)	17,483
Income taxes payable	-	(1,164)
	<u>(184,344)</u>	<u>(59,296)</u>