

# **Senvest Capital Inc.**

Condensed Interim Consolidated Financial Statements  
(Unaudited)

**June 30, 2019**



# 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 June 30, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERALL PERFORMANCE

Equity markets started the second quarter with the same positive tone they have exhibited through the first part of 2019. In May things came to a screeching halt with the resumption of the US/China “trade war” and were further exacerbated by a Presidential Executive Order targeting one of China’s most important tech companies, Huawei. In June the market recovered based on optimism that these fears were overblown. The order regarding Huawei effectively banned the use of its equipment in U.S. telecom networks and fanned the fear of a “tech war.” Semiconductor-related investments suffered in the wake of the Huawei developments. Macro fears may again worsen, and we could see more downside. However, our belief is that it remains in the interests of the U.S., the current administration, and China to come to terms on a deal in which case these macro fears should quickly subside. Furthermore, equities should also see support from potential Fed rate cuts.

Senvest Capital (“Senvest” or the “Company”) had a loss for the quarter and underperformed the major indices. We have experienced similar tough periods in the past and recognize that investing to achieve superior long-term returns often requires short-term pain. Senvest recorded a net loss attributable to common shareholders of (\$56.6) million or (\$21.04) per basic and diluted common share for the period ended June 30, 2019. This compares to net income attributable to common shareholders of \$19.3 million or \$7.10 per basic and diluted common share for June 30, 2018. For the quarter, the US dollar weakened against the Canadian dollar and the result was a currency translation loss of about (\$16.7) million from the net income attributable to common shareholders. This amount is not reported in the Company’s statement of income (loss) rather its reflected in its statement of comprehensive income (loss). As a result, the comprehensive loss attributable to common shareholders was (\$73.3) million for the quarter.

The Company’s loss from equity investments was the biggest contributor to the results. The net change in equity investments and other holdings including securities sold short and derivative liabilities totalled (\$172.6) million in the current quarter versus \$49.1 million in June 2018.

Some of the largest holdings as at June 30, 2019 were, Marriot Vacations (VAC), Radware (RDWR), Tower Semiconductors (TSEM), Northstar Realty Europe (NRE), Paramount Resources (POU), Seven Generations Energy (VII), and Intercept Pharmaceuticals (ICPT). (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).

Relatively new core holding, timeshare operator Marriot Vacations (“VAC”), has become our biggest position. VAC is the exclusive worldwide developer, marketer, seller and manager of timeshare resorts under the brand names Marriott and Ritz-Carlton Destination Club. VAC held on to its first quarter gains and has remained our best performing stock.

Canadian oil and gas exploration and production company Seven Generations Energy, Ltd. (“VII”) was one of the major decliners that affected performance last quarter. The company reported Q1 results in-line with expectations, notably including \$0.95/share in adjusted funds flow or approximately \$3.80/share annualized. Management maintained guidance for the year and indicated it would use free cash flow to repurchase stock. The company resumed its buyback in May and repurchased approximately 5.9 million shares, representing a run-rate of 10% annually. Despite the fact that the company is executing on its objectives and commodity prices ended roughly flat over the quarter, VII stock fell by almost a third. It’s possible that the stock’s removal from the MSCI World Index or the exit during the quarter of one of its

largest shareholders weighed on the stock. We believe that the stock offers a bargain valuation at current trading levels, representing less than 2x operating cash flow and a roughly 15% free cash flow yield. We also endorse strongly the company's decision to use free cash flow to buy shares at these attractive valuations as it should augment shareholder value.

Biopharmaceutical Company Intercept Pharmaceuticals ("ICPT"), which markets Ocaliva, a drug for the treatment of liver diseases, was also a large contributor to losses in the June quarter. The stock came under pressure starting in April after the release of late-stage, phase 3 trial data at a prominent liver disease conference regarding the use of Ocaliva in the treatment of NASH (non-alcoholic steatohepatitis). The development of drugs to treat NASH has received great attention from dozens of players, including large pharma companies, given a potential patient population of up to 15% of Americans (Bloomberg) and the chronic nature of the disease. While the release of the phase 3 data confirmed the efficacy of Ocaliva in the treatment of NASH and supported the expectation of an FDA approval in early 2020, some investors appear to have found the data lacking details or raising questions about Ocaliva's potential marketability. For example, side effects including itching could impact recurring patient usage of the drug and a potential requirement of liver biopsy could also put off patient adoption. Other potential factors weighing on the stock price may have included a lack of clarity around pricing and pace of the roll out once approved, as well as an overhang of an expected equity offering to provide capital to bridge the company to cash flow breakeven.

Our view on the potential for ICPT's stock price is more favourable and we have increased our investment during the recent slump in the stock. In contrast to concerns about ICPT marketability, we believe that the meaningful benefits of taking Ocaliva to treat NASH outweigh any relatively nominal side effects (preventing potential liver failure is worth the trade-off of potential itchiness). The company also put to rest the overhang of a capital hole with a combined \$400 million stock and convertible debt offerings in May at \$83.50/share.

We believe that ICPT has a meaningful lead on other drug companies in the treatment of NASH, including not only a two-year window of market exclusivity but also in terms of efficacy and see global revenue potential for Ocaliva of \$3 billion. At the current stock price in the \$60s, ICPT has a market cap of roughly \$2 billion, which we believe offers superior risk-reward in the context of its revenue opportunity. If the stock market doesn't recognize this value, a big pharma acquirer may and would pay a premium to own it entirely.

As value investors at Senvest, we have paid close attention to recent headlines questioning "Is value investing dead?" asked by both CNBC.com and Marketwatch.com, two days apart at the end of June. These financial news outlets were likely prompted to post this idea after considering the relative performance of value stocks compared to growth stocks. The S&P 500 Growth Index and S&P 500 Value Index traded at a record wide spread in terms of the performance of the Growth Index minus the Value Index. S&P divides the parent index into growth and value stocks using three factors: the ratios of book value, earnings, and sales to price. To give a sense of valuation comparison, the Growth Index traded at 5.5x book value and 24.3x trailing earnings. The Value Index traded at 2.3x book value and 18.3x trailing earnings. Small cap stocks haven't been immune to this trend either, as the spread of the performance between the Russell 2000 Growth Index minus the Russell 2000 Value ETF also traded at its widest level in history. The Russell Growth ETF traded at 4.2x book and 25.7x trailing earnings; the Russell 2000 Value Index traded at 1.3x book and 12.5x trailing earnings. JP Morgan research confirms this disparity between Value and Growth in a June report, which noted "Value is currently trading at the biggest discount ever and offers the largest premium over the last 30 years. The oversold condition of Value is at par with or worse than during the 2000 tech bubble. The median P/E of the cheapest portfolio relative to the S&P500 is trading at 7x discount (99th percentile). Similarly, the relative P/B spread of the cheapest vs the most expensive portfolio is at 9x (widest ever)."

We see a similar pattern of relative value also with respect to energy stocks. Ned Davis Research observed in a July 8, 2019 note (“Energy: Approaching peak pessimism?”), that the Energy Sector’s share of total market capitalization has dipped to 4.5%...the Sector’s smallest share since 2001. The Sector’s share of total market cap now sits less than 1% away from the all-time low of 3.75% - set in March 1999. As a historic refresher, oil had declined by 50% in the two years leading up to the 1999 relative lows. Today, oil has risen by 50% in the preceding two years.” Ned Davis further goes on to note that the portion of the Energy Sector comprised of just oil and gas exploration and production stocks, and oil field services stocks, represents only 3.59% of overall market cap – an all-time low.

There have been plenty of cycles of stocks and sectors going into and out of favor. We believe in mean reversion and with all things equal when it comes to long-term wealth creation, the time to buy is when things are out of favor. We also believe that our underlying investment strategy doesn’t simply rely on mean reversion. It is to identify stocks that we believe can pull themselves out of the Value category through transformation, rehabilitation or a turnaround in their business which the market will eventually respond with inflection and acceleration in financial results.

The Senvest Master Fund (Senvest Partners Fund) is focused primarily on small and mid-cap companies. The fund recorded a loss of (12.6%) net of fees in the quarter. With most of the long portfolio invested in small and mid-cap stocks, the fund underperformed its most relevant benchmark, the Russell 2000. The fund also underperformed the S&P 500 index for the quarter, but does not consider this index as a benchmark. The Senvest Technology Partners Fund was initiated in 2003 to focus on investing in Israel related companies. Effective January 1, 2019, the Israel Fund broadened its geographic investment mandate to focus on global technology investments. To better reflect the evolving global complexion of its technology investments, the Israel Fund underwent a name change to Senvest Technology Partners. After investing in Israel-related technology for 15 years, its holdings extend across the global technology universe. The Technology Fund will maintain the same investment philosophy and continue to leverage the existing diligence and understanding of global technology and end markets. This fund recorded a loss of (2.3%) net of fees for the quarter (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 June 30, 2019. Both of these funds are consolidated into the accounts of the Company.

The Company has a portfolio of real estate investments as at June 30, 2019. One part of this amount represents investments in different US REITs and partnerships. These REITs and partnerships 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 partnerships 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 and partnerships, 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. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties were 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 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. In April 2018 all the aforementioned companies were merged into one legal entity called Coldstream SL.

The Company consolidates the Senvest Management LLC (SML) entity that serves as the investment manager of Senvest Partners and Senvest Technology 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 Corporation. Most of the equity of Senvest Management LLC reflects its investment in the underlying funds. On April 1 2019 SML redeemed a net amount of \$90.5 million of its equity in the underlying funds and the executive invested this same amount back in the funds under his own personal name. As such there was a reallocation on the Company's balance sheet out of Non-controlling interest and into Liability for redeemable units. There was no cash withdrawal out of the funds just a transfer of ownership of the investment in the funds from SML to the executive owner of SML. Even though the total equity of the Company was reduced due to this transfer, the total equity attributable to common shareholders remained unchanged. This non-controlling interest was \$18 million as at June 30, 2019 from \$104.8 million as at December 31, 2018.

At the end of June 30, 2019, Senvest had total consolidated assets of \$2,548.3 million versus \$2,757.0 million at the end of 2018. Equity investments and other holdings decreased to \$2,098.3 million from \$2,155.2 million in December 2018. The Company purchased \$860.4 million of investment holdings in the period and sold \$1,023.3 million of such holdings. The Company's liabilities decreased to \$1,704.6 million this quarter versus \$1,787.5 million in 2018. The main contributor to this reduction was a decrease in securities sold short and derivative liabilities. The proceeds of securities sold short were \$1,639.5 million and the amount of shorts covered was \$1,965.7 million in the period. Overall the trading figures were less than the corresponding amounts for the prior year. However as a whole, the 2019 second quarter has been more volatile than the prior year quarter.

#### 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 June 30, 2019, 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 June 30, 2019 would be as follows (in thousands):

|  | Fair value | Estimated fair value<br>30% price increase | Estimated fair value<br>30% price decrease |
|--|------------|--|--|
| Equity investments and other holdings            |            |  |  |
| Listed equity securities and derivatives         | 1,853,057  | 2,408,974                                  | 1,297,140                                  |
| Securities sold short and derivative liabilities | (495,729)  | (644,448)                                  | (347,010)                                  |
| Pre-tax impact on net earnings                   |            | 407,199                                    | (407,199)                                  |

#### 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, liability for redeemable units 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):

|                                  | June 30, 2019 | December 31, 2018 |
|----------------------------------|---------------|-------------------|
| Total net liabilities            | \$1,401.1     | \$1,429.8         |
| Total equity                     | \$ 843.6      | \$969.4           |
| Net liabilities to capital ratio | 1.66          | 1.47              |

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 1.66 at the end of June 2019 from 1.47 at the end of 2018.

#### 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 June 30, 2019, approximately 86% 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 Technology 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 Technology Partners GP LLC is the General Partner of Senvest Technology Partners Master Fund LP.

Management considers that the Company has control of Senvest Master Fund LP, Senvest Technology 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 investment properties

The Company has adopted the fair value model in measuring its investment properties. The fair value of the investment properties is performed by external independent valuers located in the area of the properties. Inputs used in the property valuation models are based on appropriate assumptions that reflect the type of property and location. Management reviews the assumptions made and models used to ensure they correlate with their expectation and understanding of the market. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### 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 86% 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 approximately 5.3% 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 approximately 8.4% 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 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 June 30 2019, 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 and partnerships. 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 and partnerships, 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 can be redeemed twice annually with an 120 day notice period. 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(loss) | Net income(loss)-Common shareholders | Earnings (loss) Per share |
|--------|--|--------------------------------------|---------------------------|
| 2019-2 | (169,458)                                | (56,556)                             | (21.04)                   |
| 2019-1 | 164,672                                  | 54,751                               | 20.36                     |
| 2018-4 | (428,534)                                | (152,197)                            | (56.19)                   |
| 2018-3 | 21,225                                   | 2,478                                | 0.92                      |
| 2018-2 | 67,359                                   | 19,337                               | 7.10                      |
| 2018-1 | 23,331                                   | (9,704)                              | (3.55)                    |
| 2017-4 | 2,234                                    | 491                                  | 0.29                      |
| 2017-3 | 236,284                                  | 74,964                               | 27.10                     |

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 \$70 million and the least profitable quarter had a loss of over \$150 million. These wide swings are primarily due to the large quarterly mark to market adjustments in the Company's portfolio of public holdings. However, we expect the volatility and choppiness of the markets to result in wide profit swings from year to year and from quarter to quarter. Reference is made to the section on Investment risk above.

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

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

On August 14, 2018, Senvest commenced a new normal course issuer bid to purchase a maximum of 70,000 of its own common shares until August 13, 2019. There were 24,600 shares repurchased under this plan. The number of common shares outstanding as at June 30, 2019 was 2,676,324 and as at August 12, 2019 was 2,676,324. There were no stock options outstanding as at June 30, 2019 and none have been issued since 2005.

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

#### New Accounting standards adopted in 2019

IFRS 16, '*Leases*', was published in January 2016 by the IASB. This standard replaces the current guidance in IAS 17, *Leases*, and three related interpretations, 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 the Company's annual periods beginning on January 1, 2019. The Company adopted IFRS 16 on a modified retrospective basis whereby the adjustments are recorded on January 1, 2019 without adjustments to prior periods. Starting from that date, lease expense is substituted by amortization of the Operating lease right-of-use asset and interest expense on the Operating lease liability and the principal payments of the Operating lease liability are presented as financing cash outflows.

#### 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 \$18 million as at June 30, 2019 from \$104.8 million as at December 31, 2018.

#### Significant Equity Investments

For information on a summary of financial information from certain significant investees please refer to the 2018 annual report. The accounts of Senvest Partners, Senvest Technology 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 August 12, 2019 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 <http://www.sedar.com/> 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 June 30, 2019, 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**

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August 12, 2019

(Management Discussion and Analysis ("MD&A") provides a review of Senvest Capital Inc.'s operations, performance and financial condition for the period ended June 30, 2019, and should be read in conjunction with the 2018 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<br>June 30,<br>2019<br>\$ | As at<br>December 31,<br>2018<br>\$ |
|---|------|---------------------------------|-------------------------------------|
| <b>Assets</b>   |      |                                 |                                     |
| Cash and cash equivalents                               |      | 17,609                          | 120,555                             |
| Restricted short-term investments                       |      | 465                             | 462                                 |
| Due from brokers  |      | 303,519                         | 357,754                             |
| Equity investments and other holdings                   | 5    | 2,098,260                       | 2,155,198                           |
| Investments in associates                               |      | 19,496                          | 20,479                              |
| Real estate investments                                 |      | 43,110                          | 41,161                              |
| Investment properties                                   |      | 38,958                          | 39,786                              |
| Income taxes receivable                                 |      | 13,001                          | 12,116                              |
| Deferred tax asset                                      |      | 12                              | 11                                  |
| Operating lease right-of-use asset                      |      | 5,057                           | -                                   |
| Other assets  |      | 8,777                           | 9,448                               |
| <b>Total assets</b>                                     |      | <u>2,548,264</u>                | <u>2,756,970</u>                    |
| <b>Liabilities</b>                                      |      |                                 |                                     |
| Bank advances   |      | 2,017                           | 5,602                               |
| Trade and other payables                                |      | 19,173                          | 13,026                              |
| Due to brokers  |      | 119,362                         | 6,480                               |
| Securities sold short and derivative liabilities        | 5    | 563,392                         | 748,964                             |
| Redemptions payable                                     |      | 12,666                          | 5,755                               |
| Subscriptions received in advance                       |      | -                               | 101,838                             |
| Income tax payable                                      |      | 301                             | 918                                 |
| Deferred income tax liabilities                         |      | 22,483                          | 25,782                              |
| Operating lease liability                               |      | 5,216                           | -                                   |
| Liability for redeemable units                          |      | 960,003                         | 879,184                             |
| <b>Total liabilities</b>                                |      | <u>1,704,613</u>                | <u>1,787,549</u>                    |
| <b>Equity</b>   |      |                                 |                                     |
| <b>Equity attributable to common shareholders</b>       |      |                                 |                                     |
| Share capital   |      | 22,242                          | 22,341                              |
| Accumulated other comprehensive income                  |      | 160,031                         | 194,938                             |
| Retained earnings                                       |      | 643,388                         | 647,357                             |
| <b>Total equity attributable to common shareholders</b> |      | <u>825,661</u>                  | <u>864,636</u>                      |
| <b>Non-controlling interests</b>                        |      | <u>17,990</u>                   | <u>104,785</u>                      |
| <b>Total equity</b>                                     |      | <u>843,651</u>                  | <u>969,421</u>                      |
| <b>Total liabilities and equity</b>                     |      | <u>2,548,264</u>                | <u>2,756,970</u>                    |

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 and six months ended June 30, 2019 and 2018

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

|  | 2019<br>\$       | 2018<br>\$    | 2019<br>\$      | 2018<br>\$    |
|--|------------------|---------------|-----------------|---------------|
| <b>Revenue</b>   |                  |               |                 |               |
| Interest income  | 5,603            | 3,176         | 11,069          | 6,265         |
| Dividend income  | 3,421            | 3,095         | 7,360           | 5,135         |
| Other income   | 755              | 389           | 1,474           | 656           |
|  | <u>9,779</u>     | <u>6,660</u>  | <u>19,903</u>   | <u>12,056</u> |
| <b>Investment gains (losses)</b>                                     |                  |               |                 |               |
| Net change in fair value of equity investments and other holdings    | (172,633)        | 49,102        | (19,645)        | 68,393        |
| Dividend expense on securities sold short                            | (1,072)          | (1,373)       | (2,081)         | (5,553)       |
| Net change in fair value of real estate investments                  | 1,198            | 71            | 3,752           | 1,567         |
| Share of profit of associates  | 323              | 1,011         | 540             | 1,595         |
| Foreign exchange gain (loss)   | (7,053)          | 11,888        | (7,255)         | 12,632        |
|  | <u>(179,237)</u> | <u>60,699</u> | <u>(24,689)</u> | <u>78,634</u> |
| <b>Total revenue and net investment gains (losses)</b>               | <u>(169,458)</u> | <u>67,359</u> | <u>(4,786)</u>  | <u>90,690</u> |
| <b>Operating costs and other expenses</b>                            |                  |               |                 |               |
| Employee benefit expense   | 4,789            | 10,459        | 13,792          | 17,747        |
| Interest expense   | 10,773           | 8,844         | 21,320          | 21,671        |
| Transaction costs  | 3,715            | 3,655         | 6,883           | 6,525         |
| Other operating expenses   | 3,348            | 4,334         | 6,855           | 7,783         |
|  | <u>22,625</u>    | <u>27,292</u> | <u>48,850</u>   | <u>53,726</u> |
| <b>Change in redemption amount of redeemable units</b>               | <u>(125,322)</u> | <u>16,948</u> | <u>(56,449)</u> | <u>21,625</u> |
| <b>Income (loss) before income tax</b>                               | <u>(66,761)</u>  | <u>23,119</u> | <u>2,813</u>    | <u>15,339</u> |
| Income tax expense (recovery)  | <u>(9,128)</u>   | <u>1,720</u>  | <u>(1,756)</u>  | <u>2,360</u>  |
| <b>Net income (loss) for the period</b>                              | <u>(57,633)</u>  | <u>21,399</u> | <u>4,569</u>    | <u>12,979</u> |
| <b>Net income (loss) attributable to:</b>                            |                  |               |                 |               |
| Common shareholders  | (56,556)         | 19,337        | (1,804)         | 9,633         |
| Non-controlling interests  | (1,077)          | 2,062         | 6,373           | 3,346         |
| <b>Earnings (loss) per share attributable to common shareholders</b> |                  |               |                 |               |
| Basic and Diluted  | (21.04)          | 7.10          | (0.67)          | 3.54          |

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 and six months ended June 30, 2019 and 2018

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(in thousands of Canadian dollars)

|   | 2019<br>\$ | 2018<br>\$ | 2019<br>\$ | 2018<br>\$ |
|---|------------|------------|------------|------------|
| <b>Net income (loss) for the period</b>             | (57,633)   | 21,399     | 4,569      | 12,979     |
| <b>Other comprehensive income (loss)</b>            |            |            |            |            |
| Currency translation differences                    | (17,357)   | 22,432     | (37,619)   | 51,866     |
| <b>Comprehensive income (loss) for the period</b>   | (74,990)   | 43,831     | (33,050)   | 64,845     |
| <b>Comprehensive income (loss) attributable to:</b> |            |            |            |            |
| Common shareholders                                 | (73,304)   | 39,074     | (36,711)   | 55,444     |
| Non-controlling interests                           | (1,686)    | 4,757      | 3,661      | 9,401      |

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 June 30, 2019 and 2018

(in thousands of Canadian dollars)

|   | Attributable to common shareholders |  |                         |             | Non-controlling interests<br>\$ | Total equity<br>\$ |
|---|-------------------------------------|--|-------------------------|-------------|---------------------------------|--------------------|
|   | Share capital<br>\$                 | Accumulated other comprehensive income<br>\$ | Retained earnings<br>\$ | Total<br>\$ |                                 |                    |
| <b>Balance – December 31, 2017</b>                | 22,751                              | 122,019                                      | 798,718                 | 943,488     | 119,897                         | 1,063,385          |
| Net income for the period                         | -                                   | -  | 9,633                   | 9,633       | 3,346                           | 12,979             |
| Other comprehensive income                        | -                                   | 45,811                                       | -                       | 45,811      | 6,055                           | 51,866             |
| <b>Comprehensive income for the period</b>        | -                                   | 45,811                                       | 9,633                   | 55,444      | 9,401                           | 64,845             |
| Repurchase of common shares                       | (311)                               | -  | (8,987)                 | (9,298)     | -                               | (9,298)            |
| <b>Balance – June 30, 2018</b>                    | 22,440                              | 167,830                                      | 799,364                 | 989,634     | 129,298                         | 1,118,932          |
| <b>Balance – December 31, 2018</b>                | 22,341                              | 194,938                                      | 647,357                 | 864,636     | 104,785                         | 969,421            |
| Net income (loss) for the period                  | -                                   | -  | (1,804)                 | (1,804)     | 6,373                           | 4,569              |
| Other comprehensive loss                          | -                                   | (34,907)                                     | -                       | (34,907)    | (2,712)                         | (37,619)           |
| <b>Comprehensive income (loss) for the period</b> | -                                   | (34,907)                                     | (1,804)                 | (36,711)    | 3,661                           | (33,050)           |
| Repurchase of common shares                       | (99)                                | -  | (2,165)                 | (2,264)     | -                               | (2,264)            |
| Contributions from non-controlling interests      | -                                   | -  | -                       | -           | 3,814                           | 3,814              |
| Distributions to non-controlling interests        | -                                   | -  | -                       | -           | (94,270)                        | (94,270)           |
| <b>Balance – June 30, 2019</b>                    | 22,242                              | 160,031                                      | 643,388                 | 825,661     | 17,990                          | 843,651            |

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 six-months ended June 30, 2019 and 2018

(in thousands of Canadian dollars)

|  | Note | 2019<br>\$      | 2018<br>\$      |
|--|------|-----------------|-----------------|
| <b>Cash flows provided by (used in)</b>  |      |                 |                 |
| <b>Operating activities</b>  |      |                 |                 |
| Net income for the period  |      | 4,569           | 12,979          |
| Adjustments for non-cash items   | 6a   | (42,843)        | (51,148)        |
| Purchase of equity investments and other holdings held for trading                             |      | (860,434)       | (1,049,562)     |
| Purchase of equities sold short and derivative liabilities                                     |      | (1,965,659)     | (2,080,981)     |
| Proceeds on sale of equity investments and other holdings held for trading                     |      | 1,023,280       | 1,143,361       |
| Proceeds from securities sold short and derivative liabilities                                 |      | 1,639,502       | 2,063,372       |
| Dividends and distributions from real estate investments                                       |      | 2,876           | 3,993           |
| Changes in working capital items   | 6b   | 160,260         | (89,856)        |
| <b>Net cash used in operating activities</b>   |      | <b>(38,449)</b> | <b>(47,842)</b> |
| <b>Investing activities</b>  |      |                 |                 |
| Transfers to restricted short-term investment  |      | (22)            | 20              |
| Purchase of real estate investments  |      | (2,815)         | (867)           |
| Purchase of investment properties  |      | -               | (9,569)         |
| Purchase of equity investments and other holdings as fair value through profit or loss         |      | (51,025)        | (1,516)         |
| Proceeds on sale of equity investments and other holdings as fair value through profit or loss |      | -               | 238             |
| Proceeds from investments in associates  |      | 693             | 685             |
| <b>Net cash used in investing activities</b>   |      | <b>(53,169)</b> | <b>(11,009)</b> |
| <b>Financing activities</b>  |      |                 |                 |
| Contributions from non-controlling interest  |      | 3,814           | -               |
| Distributions paid to non-controlling interests  |      | (94,270)        | -               |
| Decrease in bank advances  |      | (3,422)         | (1,673)         |
| Payment of operating lease liability   |      | (461)           | -               |
| Repurchase of common shares  |      | (2,264)         | (9,298)         |
| Proceeds from issuance of redeemable units   |      | 111,281         | 64,600          |
| Amounts paid on redemption of redeemable units   |      | (22,951)        | (22,487)        |
| <b>Net cash provided by (used in) financing activities</b>                                     |      | <b>(8,273)</b>  | <b>31,142</b>   |
| <b>Decrease in cash and cash equivalents</b>   |      | <b>(99,891)</b> | <b>(27,709)</b> |
| Effect of changes in foreign exchange rates on cash and cash equivalents                       |      | (3,055)         | 2,265           |
| <b>Cash and cash equivalents – Beginning of period</b>   |      | <b>120,555</b>  | <b>53,122</b>   |
| <b>Cash and cash equivalents – End of period</b>   |      | <b>17,609</b>   | <b>27,678</b>   |
| <b>Amounts of cash flows classified within operating activities:</b>                           |      |                 |                 |
| Cash paid for interest   |      | 17,113          | 23,697          |
| Cash paid for dividends on equities sold short   |      | 1,468           | 2,616           |
| Cash received on interest  |      | 6,423           | 5,781           |
| Cash received on dividends   |      | 4,123           | 1,836           |
| Cash paid for income taxes   |      | 2,329           | 2,734           |

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) June 30, 2019

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(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 June 30, 2019 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, 2018, 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, 2018.

The Board of Directors (Board) approved these condensed interim consolidated financial statements for issue on August 12, 2019.

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 2019

IFRS 16, ‘Leases’, was published in January 2016 by the IASB. This standard replaces the requirements in IAS 17, *Leases*, and three related interpretations, 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 the Company’s annual periods beginning on January 1, 2019. The Company adopted IFRS 16 on a modified retrospective basis whereby the adjustments are recorded on January 1, 2019 without adjustments to prior periods. Starting from that date, the Company has separately recorded an operating lease right-of-use asset and an operating lease liability, lease expense is substituted by depreciation of the operating lease right-of-use asset and interest expense on the operating lease liability and principal payments on the operating lease liability are presented as financing cash outflows.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

The Companies leasing activities include only the rental of office space. The modified retrospective application of IFRS 16 allows for certain expedients to facilitate the implementation of the requirements. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

On January 1, 2019, Company has recorded an operating lease right-of-use asset based on the corresponding operating lease liability which was measured at the net present value of the future lease payments. The operating lease right-of-use asset was adjusted for prepaid rents and lease incentives which had already recorded in the Company's consolidated statement of financial position. On January 1, 2019, the operating lease liability was \$5,867 and the operating lease right-of-use asset was \$5,686. The resulting additions and reclassification in the statement of financial position did not impact prior year results.

When calculating the net present value of the future lease payments, the Company used its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 4.5%.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the notes of Company's consolidated financial statements, to the operating lease liability recognized on initial application of IFRS 16 at January 1, 2019.

|   |                 |
|---|-----------------|
| Operating lease commitments at December 31 2018                   | \$ 7,066        |
| Discounted using the incremental borrowing rate at January 1 2019 | 6,144           |
| Variable lease payments that do not depend on an index or rate    | (277)           |
| <u>Operating lease liability recognized at January 1, 2019</u>    | <u>\$ 5,867</u> |

### **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.

### **Consolidation**

#### Business Combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The company recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

Acquisition-related costs are expensed as incurred. The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

### Subsidiaries

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

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

### Investments in associates

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

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

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

The Company assesses at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of income (loss). In accordance with 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.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

### Liability for redeemable units

Liability for redeemable units represents the units in Senvest Master Fund, L.P., Senvest Technology Partners Master Fund, L.P. (formerly Senvest Israel Partners Master Fund, L.P.) and Senvest Cyprus Recovery Investment Partners, L.P. Fund (collectively the Funds or individually a Fund) that are not owned by the Company. Senvest Master Fund, L.P. and Senvest Technology 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 Technology 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 Fund LP has units that can be redeemed twice annually with a 120 day notice period. These units are recognized initially at fair value, net of any transaction costs incurred, and subsequently units are measured at the redemption amount.

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

### Non-controlling interests

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

### Foreign currency translation

#### Functional currency

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

#### Transactions and balances

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

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

### Consolidation and foreign operations

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

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

### Presentation currency

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

### Cash and cash equivalents

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

### Financial assets and liabilities

#### 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 reassessed periodically and contractual cash flows characteristics are assessed to determine whether they are "Solely payments of principal and interest" (SPPI).

Financial assets, including hybrid contracts, are 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).



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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) are 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) are 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 are 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 (loss). 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 individually at the level of the subsidiaries and the associated companies. Information that is considered in determining the business models includes policies and objectives for the financial instrument held in each entity, how risk and performance is measured at the entity level and reported to management and expected future events for the financial instrument with respect to valuation, holding period and selling. All of the group entities’ financial assets are managed on a fair value basis with the exception of bank balances and short-term trade receivables. The Company does not hold any long-term financial assets with the intent of solely collecting payments of principal and interest or collecting such payments and selling the assets.

### i) Financial assets and financial liabilities held for trading

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

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

From time to time, the Company enters into derivative financial instruments for speculative purposes. These instruments are marked to market, and the corresponding gains and losses for the year are recognized in the consolidated statement of income (loss). The carrying value of these instruments is fair value, which approximates the amount that would be received or paid if the derivative were to be

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

transferred to a market participant 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 form part of a portfolio that is managed and whose 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 (loss).

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of financial assets or financial liabilities at fair value through profit or loss are presented in the consolidated statement of income (loss) in 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 (loss) as 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 (loss) in interest income based on the contractual rate on an accrual basis. Dividend expense from equities sold short is recognized in the consolidated statement of income (loss) as dividend expense on equities sold short.

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 and unconditional 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) June 30, 2019

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

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) and that are managed under a “held to collect” business model.

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 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.

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, subscriptions received in advance and liability for redeemable units.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

### *Recognition and measurement*

Trade and other payables are initially recognized at fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Bank advances, due to brokers, redemptions payable and subscriptions received in advance are recognized initially at fair value, net of any transaction costs incurred, 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 (loss) (other than equity instruments) as well as any loan commitments and guarantees. 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   |

Substantially 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.

### *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 does not apply the hedging requirements from IFRS 9.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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(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 brokers cash balances are offset against the due to brokers margin balances at each prime broker.

### **Investment properties**

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

### **Provision**

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

### **Income tax**

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

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

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

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

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

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 on debt financial assets measured at amortized cost or fair value through other comprehensive income is recognized using the effective interest method. It includes interest income from cash and cash equivalents.

#### 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.

### **Employee benefits**

#### Post-employment benefit obligations

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

### **Share 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.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

### **Dividend distribution**

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

### **Earnings per share**

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

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive instruments. The Company currently does not have any dilutive instruments.

### **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 the reporting period commencing January 1, 2019 reporting periods and the Company has not early adopted these standards and amendments.

- 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.

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

Refer to note 16 of the 2018 audited financial statements for risk sensitivity information for the Company financial instruments.

### **Fair value of investment properties**

The Company has adopted the fair value model in measuring its investment properties. The fair value of the investment properties is performed by external independent knowledgeable valuers located in the area of the properties. Inputs used in the property valuation models are based on appropriate assumptions that reflect the type of property and location. Management reviews the assumptions made and models used to ensure they correlate with their expectation and understanding of the market.

Changes in assumptions about these factors could affect the reported fair value of investment properties. Refer to note 9 of the 2018 audited financial statements for risk sensitivity information for the Company's investment properties

### **Income taxes**

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

### **Critical accounting judgments**

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

Management considers the Company to have *de facto control* of Senvest Management L.L.C. (RIMA), RIMA Senvest Master Fund GP, L.L.C., and Senvest Technology Partners GP, L.L.C. 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. RIMA is the investment adviser to the Funds, whereas RIMA Senvest Master Fund GP, L.L.C. is the General Partner. As compensation for its sub-advisory services, the Company is entitled to receive 60% of the management and incentive fees earned by RIMA each fiscal year.

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



# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

### 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) June 30, 2019

(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 June 30, 2019 and December 31, 2018.

|   | <b>As at June 30, 2019</b> |                |                |                  |
|---|----------------------------|----------------|----------------|------------------|
|   | <b>Level 1</b>             | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>     |
|   | <b>\$</b>                  | <b>\$</b>      | <b>\$</b>      | <b>\$</b>        |
| <b>Assets</b>   |                            |                |                |                  |
| Financial assets at fair value through profit or loss |                            |                |                |                  |
| Held for trading                                      |                            |                |                |                  |
| Equity securities                                     | 1,845,578                  | 181            | -              | 1,845,759        |
| Debt securities                                       | -                          | 72,830         | -              | 72,830           |
| Derivative financial assets                           | 2,188                      | 28,171         | -              | 30,359           |
| Other   |                            |                |                |                  |
| Equity securities                                     | 1,683                      | 8,462          | 89,340         | 99,485           |
| Debt securities                                       | -                          | 2,992          | 46,835         | 49,827           |
| Real estate investments                               | -                          | -              | 43,110         | 43,110           |
|   | <b>1,849,449</b>           | <b>112,636</b> | <b>179,285</b> | <b>2,141,370</b> |
| <b>Liabilities</b>                                    |                            |                |                |                  |
| Financial liabilities                                 |                            |                |                |                  |
| Held for trading                                      |                            |                |                |                  |
| Securities sold short                                 | 452,561                    | -              | -              | 452,561          |
| Debt securities                                       | -                          | 67,663         | -              | 67,663           |
| Derivative financial liabilities                      | -                          | 43,168         | -              | 43,168           |
|   | <b>452,561</b>             | <b>110,831</b> | <b>-</b>       | <b>563,392</b>   |
| <b>As at December 31, 2018</b>                        |                            |                |                |                  |
|   | <b>Level 1</b>             | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>     |
|   | <b>\$</b>                  | <b>\$</b>      | <b>\$</b>      | <b>\$</b>        |
| <b>Assets</b>   |                            |                |                |                  |
| Financial assets at fair value through profit or loss |                            |                |                |                  |
| Held for trading                                      |                            |                |                |                  |
| Equity securities                                     | 1,929,381                  | 1,429          | -              | 1,930,810        |
| Debt securities                                       | -                          | 92,931         | -              | 92,931           |
| Derivative financial assets                           | -                          | 29,588         | -              | 29,588           |
| Other   |                            |                |                |                  |
| Equity securities                                     | 2,014                      | 8,425          | 84,482         | 94,921           |
| Debt securities                                       | -                          | 2,824          | 4,124          | 6,948            |
| Real estate investments                               | -                          | -              | 41,161         | 41,161           |
|   | <b>1,931,395</b>           | <b>135,197</b> | <b>129,767</b> | <b>2,196,359</b> |
| <b>Liabilities</b>                                    |                            |                |                |                  |
| Financial liabilities                                 |                            |                |                |                  |
| Held for trading                                      |                            |                |                |                  |
| Securities sold short                                 | 637,121                    | -              | -              | 637,121          |
| Debt securities                                       | -                          | 69,275         | -              | 69,275           |
| Derivative financial liabilities                      | 4,221                      | 38,347         | -              | 42,568           |
|   | <b>641,342</b>             | <b>107,622</b> | <b>-</b>       | <b>748,964</b>   |

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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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.

| <b>Description</b> | <b>Valuation technique</b>                                    |
|--------------------|---|
| 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) June 30, 2019

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

As at June 30, 2019 and December 31, 2018, 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<br>investments<br>\$ | Unlisted<br>equity<br>securities<br>\$ | Total<br>\$    |
|--|----------------------------------|--|----------------|
| <b>As at December 31, 2017</b>                       | 30,789                           | 72,991                                 | 103,780        |
| Transfers out of level 3                             | -                                | (30,626)                               | (30,626)       |
| Purchases  | 14,869                           | 56,209                                 | 71,078         |
| Sales proceeds                                       | -                                | (13,556)                               | (13,556)       |
| Distributions  | (9,663)                          | (252)                                  | (9,915)        |
| Gains (losses) recognized in net income              |                                  |  |                |
| On financial instruments held at end of year         | 2,088                            | (3,545)                                | (1,457)        |
| On financial instruments disposed of during the year | -                                | 540                                    | 540            |
| Currency translation adjustments                     | 3,078                            | 6,845                                  | 9,923          |
| <b>As at December 31, 2018</b>                       | <b>41,161</b>                    | <b>88,606</b>                          | <b>129,767</b> |
| Transfers out of level 3                             | -                                | (1,612)                                | (1,612)        |
| Purchases  | 2,815                            | 51,025                                 | 53,840         |
| Sales proceeds                                       | -                                | -                                      | -              |
| Distributions  | (2,876)                          | (333)                                  | (3,209)        |
| Gains (losses) recognized in net income              |                                  |  |                |
| On financial instruments held at end of year         | 3,752                            | 3,057                                  | 6,809          |
| On financial instruments disposed of during the year | -                                | -                                      | -              |
| Currency translation adjustments                     | (1,742)                          | (4,568)                                | (6,310)        |
| <b>As at June 30, 2019</b>                           | <b>43,110</b>                    | <b>136,175</b>                         | <b>179,285</b> |

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

(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<br>June 30,<br>2019<br>\$ | As at<br>December 31,<br>2018<br>\$ |
|---|---------------------------------|-------------------------------------|
| <b>Assets</b>   |                                 |                                     |
| Financial assets at fair value through profit or loss |                                 |                                     |
| Held for trading                                      |                                 |                                     |
| Equity securities                                     | 1,845,759                       | 1,930,810                           |
| Debt securities                                       | 72,830                          | 92,931                              |
| Derivative financial assets (i)                       | 30,360                          | 29,588                              |
|   | <u>1,948,949</u>                | <u>2,053,329</u>                    |
| Financial assets at fair value through profit or loss |                                 |                                     |
| Other   |                                 |                                     |
| Equity securities                                     | 2,024                           | 2,329                               |
| Unlisted equity securities                            | 8,120                           | 8,110                               |
| Debt securities                                       | 49,827                          | 6,948                               |
| Private investments (ii)                              | 89,340                          | 84,482                              |
|   | <u>2,098,260</u>                | <u>2,155,198</u>                    |
| Current portion                                       | 1,948,949                       | 2,053,329                           |
| Non-current portion                                   | <u>149,311</u>                  | <u>101,869</u>                      |

#### Equities sold short and derivative liabilities

|                                      | As at<br>June 30,<br>2019<br>\$ | As at<br>December 31,<br>2018<br>\$ |
|--------------------------------------|---------------------------------|-------------------------------------|
| <b>Liabilities</b>                   |                                 |                                     |
| Financial liabilities                |                                 |                                     |
| Held for trading                     |                                 |                                     |
| Securities sold short                |                                 |                                     |
| Listed equity securities             | 452,561                         | 637,121                             |
| Debt securities                      | 67,663                          | 69,275                              |
| Derivative financial liabilities (i) | 43,168                          | 42,568                              |
|                                      | <u>563,392</u>                  | <u>748,964</u>                      |

# Senvest Capital Inc.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited) June 30, 2019

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

- 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..

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

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

|   | <b>2019</b>     | <b>2018</b>     |
|---|-----------------|-----------------|
|   | \$              | \$              |
| Net change in fair value of equity investments and other holdings         | 19,645          | (68,393)        |
| Net change in fair value of real estate investments                       | (3,752)         | (1,567)         |
| Share of income (loss) of associates, adjusted for distributions received | (540)           | (1,595)         |
| Change in redemption amount of redeemable units                           | (56,448)        | 21,625          |
| Deferred income tax   | (2,293)         | (1,218)         |
| Amortization of operating lease right-of-use asset                        | 545             | -               |
|   | <u>(42,843)</u> | <u>(51,148)</u> |

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

|                          | <b>2019</b>    | <b>2018</b>     |
|--------------------------|----------------|-----------------|
|                          | \$             | \$              |
| Decrease (increase) in   |                |                 |
| Due from brokers         | 40,426         | (82,141)        |
| Income taxes receivable  | (1,403)        | 1,890           |
| Other assets             | (529)          | (3,018)         |
| Increase (decrease) in   |                |                 |
| Trade and other payables | 7,083          | (922)           |
| Due to Brokers           | 115,273        | (5,665)         |
| Income taxes payable     | (590)          | -               |
|                          | <u>160,260</u> | <u>(89,856)</u> |