

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk

We conduct operations in local currencies in countries around the world, but we use the U.S. dollar as our presentation currency. As a result, we are exposed to currency fluctuations and exchange rate risk. We cannot accurately predict the future effects of foreign currency fluctuations on our financial condition or results of operations, or quantify their effects on the macroeconomic environment. The proportion of revenues denominated in currencies other than the U.S. dollar in a given period will differ from the annual proportion for the year ended December 31, 2017, which was 44%, depending on the size and location of auctions held during the period. On annual basis, we expect fluctuations in revenues and operating expenses to largely offset and generally act as a natural hedge against exposure to fluctuations in the value of the U.S. dollar. As part of our debt management strategies, we continue to monitor our exposure to interest rate risk, and while we have not entered in to interest rate swaps to fix the interest rate on our variable rate debt, we may consider hedging specific borrowings if we deem it appropriate in the future.

During 2017, we recorded a net increase in our foreign currency translation adjustment balance of \$24.7 million, compared to a net decrease of \$9.8 million in 2016 and \$40.8 million in 2015. Our foreign currency translation adjustment arises from the translation of our net assets denominated in currencies other than the U.S. dollar to the U.S. dollar for reporting purposes. Based on our exposures to foreign currency transactions as at December 31, 2017, and assuming all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar and Euro against the U.S. dollar would result in an increase/decrease of approximately \$43.6 million in our consolidated comprehensive income, of which \$41.5 million relates to our foreign currency translation adjustment and \$2.1 million to our net income.

Interest Rate Risk

At December 31, 2017, our short-term debt and the remainder of our long-term debt consisted of loans under the Multicurrency Facilities and foreign credit facilities, which usually mature one to three months from inception. Those loans bear interest, at our option, at a rate equal to either a base rate (or Canadian prime rate for certain Canadian dollar borrowings) or LIBOR (or such floating rate customarily used by BofA for currencies other than U.S. dollars). In either case, an applicable margin is added to the rate. As at December 31, 2017, we had a total of \$332.6 million in loans (short-term and those refinanced on a long-term basis) bearing floating rates of interest, as compared to \$123.8 million at December 31, 2016. Based on the amount owing as of December 31, 2017, and assuming all other variables remain constant, a change in the U.S. prime rate by 100 bps would result in an increase/decrease of approximately \$2.7 million in the pre-tax interest we accrue per annum.

Our exposure to interest rate risk increased at December 31, 2017 compared to December 31, 2016, primarily due to the delayed draw term loans borrowed in the second quarter of 2017. The Notes, which represent 60% of our long-term debt, bear interest at a fixed rate of 5.375% per annum. The proportion of fixed-to-floating interest rates is expected to increase as we make the required principal repayments on our delayed draw term loans and execute on our debt management strategies. As part of our debt management strategies, we continue to monitor our exposure to interest rate risk, and while we have not adopted a long-term hedging strategy to protect against interest rate fluctuations associated with our variable rate debt, we may consider hedging specific borrowings if we deem it appropriate in the future.

Inflation

Although we cannot accurately anticipate the future effect of inflation on our financial condition or results of operations, inflation historically has not had a material impact on our operations.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements and supplementary data should be read in conjunction with “Part II, Item 6: Selected Financial Data” of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Ritchie Bros. Auctioneers Incorporated

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Ritchie Bros. Auctioneers Incorporated (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the results of its consolidated operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with US generally accepted accounting principles.

Report on Internal Control over Financial Reporting

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 26, 2018 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

Chartered Professional Accountants

We have served as the Company’s auditor since 2013.
Vancouver, Canada
February 26, 2018

Consolidated Income Statements

(Expressed in thousands of United States dollars, except share and per share data)

Year ended December 31,	2017	2016	2015
Revenues (note 5)	\$ 610,517	\$ 566,395	\$ 515,875
Costs of services, excluding depreciation and amortization (note 6)	79,013	66,062	56,026
	<u>531,504</u>	<u>500,333</u>	<u>459,849</u>
Selling, general and administrative expenses (note 6)	323,270	283,529	254,389
Acquisition-related costs (note 6)	38,272	11,829	601
Depreciation and amortization expenses (note 6)	52,694	40,861	42,032
Gain on disposition of property, plant and equipment	(1,656)	(1,282)	(9,691)
Impairment loss (note 7)	8,911	28,243	-
Foreign exchange loss (gain)	2,559	1,431	(2,322)
Operating income	<u>107,454</u>	<u>135,722</u>	<u>174,840</u>
Other income (expense):			
Interest income	3,194	1,863	2,660
Interest expense	(38,291)	(5,564)	(4,962)
Debt extinguishment costs	-	(6,787)	-
Equity income (loss) (note 22)	(26)	1,028	916
Other, net	5,063	4,232	2,982
	<u>(30,060)</u>	<u>(5,228)</u>	<u>1,596</u>
Income before income taxes	<u>77,394</u>	<u>130,494</u>	<u>176,436</u>
Income tax expense (recovery) (note 8):			
Current	19,356	40,341	42,420
Deferred	(17,268)	(3,359)	(4,559)
	<u>2,088</u>	<u>36,982</u>	<u>37,861</u>
Net income	<u>\$ 75,306</u>	<u>\$ 93,512</u>	<u>\$ 138,575</u>
Net income attributable to:			
Stockholders	\$ 75,027	\$ 91,832	\$ 136,214
Non-controlling interests	279	1,680	2,361
	<u>\$ 75,306</u>	<u>\$ 93,512</u>	<u>\$ 138,575</u>
Earnings per share attributable to stockholders (note 10):			
Basic	\$ 0.70	\$ 0.86	\$ 1.27
Diluted	\$ 0.69	\$ 0.85	\$ 1.27
Weighted average number of shares outstanding (note 10):			
Basic	107,044,348	106,630,323	107,075,845
Diluted	<u>108,113,151</u>	<u>107,457,794</u>	<u>107,432,474</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Expressed in thousands of United States dollars)

Year ended December 31,	2017	2016	2015
Net income	\$ 75,306	\$ 93,512	\$ 138,575
Other comprehensive income (loss), net of income tax:			
Foreign currency translation adjustment	24,670	(9,847)	(40,776)
Total comprehensive income	<u>\$ 99,976</u>	<u>\$ 83,665</u>	<u>\$ 97,799</u>
Total comprehensive income attributable to:			
Stockholders	99,639	81,839	95,831
Non-controlling interests	337	1,826	1,968
	<u>\$ 99,976</u>	<u>\$ 83,665</u>	<u>\$ 97,799</u>

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(Expressed in thousands of United States dollars, except share data)

December 31,	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 267,910	\$ 207,867
Restricted cash (note 11)	63,206	50,222
Trade and other receivables (note 13)	92,105	52,979
Inventory (note 14)	38,238	28,491
Advances against auction contracts (note 15)	7,336	5,621
Prepaid expenses and deposits (note 16)	19,690	19,005
Assets held for sale (note 17)	584	632
Income taxes receivable	19,418	13,181
	<u>508,487</u>	<u>377,998</u>
Property, plant and equipment (note 18)	526,581	515,030
Equity-accounted investments (note 22)	7,408	7,326
Restricted cash (note 11)	-	500,000
Other non-current assets (note 19)	24,146	20,244
Intangible assets (note 20)	261,094	72,304
Goodwill (note 21)	670,922	97,537
Deferred tax assets (note 8)	18,674	9,094
	<u>\$ 2,017,312</u>	<u>\$ 1,599,533</u>
Liabilities and Equity		
Current liabilities:		
Auction proceeds payable	\$ 199,245	\$ 98,873
Trade and other payables (note 23)	164,553	124,694
Income taxes payable	732	5,355
Short-term debt (note 25)	7,018	23,912
Current portion of long-term debt (note 25)	16,907	-
	<u>388,455</u>	<u>252,834</u>
Long-term debt (note 25)	795,985	595,706
Other non-current liabilities (note 26)	46,773	38,088
Deferred tax liabilities (note 8)	32,334	17,125
	<u>1,263,547</u>	<u>903,753</u>
Contingencies (note 30)		
Contingently redeemable performance share units (note 28)	9,014	3,950
Stockholders' equity (note 27):		
Share capital:		
Common stock; no par value, unlimited shares authorized, issued and outstanding shares: 107,269,783 (December 31, 2016: 106,822,001)	138,582	125,474
Additional paid-in capital	41,005	27,638
Retained earnings	602,609	601,071
Accumulated other comprehensive loss	(42,514)	(67,126)
Stockholders' equity	<u>739,682</u>	<u>687,057</u>
Non-controlling interest	5,069	4,773
	<u>744,751</u>	<u>691,830</u>
	<u>\$ 2,017,312</u>	<u>\$ 1,599,533</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(Expressed in thousands of United States dollars, except where noted)

	Attributable to stockholders						Non-controlling interest ("NCI")	Total equity	Non-controlling interest ("NCI")	Contingently redeemable performance share units ("PSUs")
	Common stock		Additional paid-in capital ("APIC")	Retained earnings	Accumulated other comprehensive income (loss)					
	Number of shares	Amount								
Balance, December 31, 2014	107,687,935	\$141,257	\$ 31,314	\$536,111	(16,750)	\$ -	691,932	\$ 17,287	\$ -	
Net income	-	-	-	136,214	-	64	136,278	2,297	-	
Other comprehensive loss	-	-	-	-	(40,383)	-	(40,383)	(393)	-	
	-	-	-	136,214	(40,383)	64	95,895	1,904	-	
Change in value of contingently redeemable non-controlling interest	-	-	-	(6,934)	-	-	(6,934)	6,934	-	
Stock option exercises	1,412,535	37,762	(7,946)	-	-	-	29,816	-	-	
Stock option tax adjustment	-	-	359	-	-	-	359	-	-	
Stock option compensation expense (note 28)	-	-	4,001	-	-	-	4,001	-	-	
NCI acquired in a business combination (note 32)	-	-	-	-	-	4,119	4,119	-	-	
Shares repurchased (note 27)	(1,900,000)	(47,489)	-	-	-	-	(47,489)	-	-	
Cash dividends paid (note 27)	-	-	-	(64,340)	-	-	(64,340)	(1,340)	-	
Balance, December 31, 2015	107,200,470	\$131,530	\$ 27,728	\$601,051	\$ (57,133)	\$ 4,183	\$707,359	\$ 24,785	\$ -	
Net income	-	-	-	91,832	-	346	92,178	1,334	-	
Other comprehensive income (loss)	-	-	-	-	(9,993)	(23)	(10,016)	169	-	
	-	-	-	91,832	(9,993)	323	82,162	1,503	-	
Change in value of contingently redeemable NCI	-	-	-	(21,186)	-	-	(21,186)	21,186	-	
Stock option exercises	1,081,531	30,670	(6,332)	-	-	-	24,338	-	-	
Stock option tax adjustment	-	-	443	-	-	-	443	-	-	
Stock option compensation expense (note 28)	-	-	5,507	-	-	-	5,507	-	-	
Modification of PSUs (note 28)	-	-	-	(70)	-	-	(70)	-	2,175	
Equity-classified PSU expense (note 28)	-	-	283	-	-	-	283	-	1,698	
Equity-classified PSU dividend equivalents	-	-	9	(62)	-	-	(53)	-	42	
Change in value of contingently redeemable equity-classified PSUs	-	-	-	(35)	-	-	(35)	-	35	
NCI acquired in a business combination (note 32)	-	-	-	-	-	596	596	-	-	
Acquisition of NCI	-	-	-	-	-	(226)	(226)	(44,141)	-	
Shares repurchased (note 27)	(1,460,000)	(36,726)	-	-	-	-	(36,726)	-	-	
Cash dividends paid (note 27)	-	-	-	(70,459)	-	(103)	(70,562)	(3,333)	-	
Balance, December 31, 2016	106,822,001	\$125,474	\$ 27,638	\$601,071	\$ (67,126)	\$ 4,773	\$691,830	\$ -	\$ 3,950	
Net income	-	-	-	75,027	-	279	75,306	-	-	
Other comprehensive income	-	-	-	-	24,612	58	24,670	-	-	
	-	-	-	75,027	24,612	337	99,976	-	-	
Stock option exercises	444,571	13,017	(3,081)	-	-	-	9,936	-	-	
Stock option compensation expense (note 28)	-	-	13,700	-	-	-	13,700	-	-	
Assumption of stock options on acquisition of IronPlanet (note 32)	-	-	2,330	-	-	-	2,330	-	-	
Settlement of equity-classified PSUs	3,211	91	-	-	-	-	91	-	(172)	
Modification of PSUs (note 28)	-	-	-	(382)	-	-	(382)	-	1,803	
Equity-classified PSU expense (note 28)	-	-	340	-	-	-	340	-	3,189	
Equity-classified PSU dividend equivalents	-	-	78	(227)	-	-	(149)	-	149	
Change in value of contingently redeemable equity-classified PSUs	-	-	-	(95)	-	-	(95)	-	95	
Cash dividends paid (note 27)	-	-	-	(72,785)	-	(41)	(72,826)	-	-	
Balance, December 31, 2017	107,269,783	\$138,582	\$ 41,005	\$602,609	\$ (42,514)	\$ 5,069	\$744,751	\$ -	\$ 9,014	

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

Year ended December 31,	2017	2016	2015
Cash provided by (used in):			
Operating activities:			
Net income	\$ 75,306	\$ 93,512	\$ 138,575
Adjustments for items not affecting cash:			
Depreciation and amortization expenses (note 6)	52,694	40,861	42,032
Impairment loss (note 7)	8,911	28,243	-
Stock option compensation expense (note 28)	13,700	5,507	4,001
Equity-classified PSU expense (note 28)	3,529	1,981	-
Inventory write down (note 14)	834	3,084	480
Deferred income tax recovery	(17,268)	(3,359)	(4,559)
Equity loss (income) less dividends received	26	(1,028)	(916)
Unrealized foreign exchange loss	254	1,947	1,403
Change in fair value of contingent consideration	(2,446)	(2,044)	-
Gain on disposition of property, plant and equipment	(1,656)	(1,282)	(9,691)
Amortization of debt issuance costs	3,056	359	-
Other, net	349	(905)	-
Net changes in operating assets and liabilities (note 11)	8,977	10,682	25,134
Net cash provided by operating activities	146,266	177,558	196,459
Investing activities:			
Acquisition of IronPlanet, net of cash acquired (note 32)	(675,851)	-	-
Acquisition of Mascus, net of cash acquired (note 32)	-	(28,123)	-
Acquisition of Xcira, net of cash acquired	-	-	(12,107)
Acquisition of Petrowsky (note 32)	-	(6,250)	-
Acquisition of contingently redeemable NCI (note 9)	-	(41,092)	-
Acquisition of NCI (note 32)	-	(226)	-
Acquisition of Kramer (note 32)	-	(11,138)	-
Acquisition of equity investments	-	-	(3,000)
Property, plant and equipment additions	(10,812)	(18,918)	(22,055)
Intangible asset additions	(28,584)	(17,558)	(8,764)
Proceeds on disposition of property, plant and equipment	4,985	6,691	16,667
Other, net	(692)	(248)	(89)
Net cash used in investing activities	(710,954)	(116,862)	(29,348)
Financing activities:			
Dividends paid to stockholders (note 27)	(72,785)	(70,459)	(64,340)
Dividends paid to NCI	(41)	(3,436)	(1,340)
Issuances of share capital	9,936	24,338	29,816
Share repurchase (note 27)	-	(36,726)	(47,489)
Proceeds from short-term debt	6,971	67,584	11,223
Repayment of short-term debt	(24,479)	(57,516)	(6,558)
Proceeds from long-term debt	325,000	647,091	-
Repayment of long-term debt	(108,985)	(148,158)	-
Debt issue costs (note 25)	(12,624)	(10,644)	-
Debt extinguishment costs	-	(6,787)	-
Repayment of finance lease obligations	(2,322)	(1,655)	(2,073)
Other, net	(106)	511	72
Net cash provided by (used in) financing activities	120,565	404,143	(80,689)
Effect of changes in foreign currency rates on cash, cash equivalents, and restricted cash	17,150	4	(26,265)
Increase (decrease)	(426,973)	464,843	60,157
Beginning of period	758,089	293,246	233,089
Cash, cash equivalents, and restricted cash, end of period (note 11)	\$ 331,116	\$ 758,089	\$ 293,246

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

1. General information

Ritchie Bros. Auctioneers Incorporated and its subsidiaries (collectively referred to as the “Company”) provide global asset management and disposition services, offering customers end-to-end solutions for buying and selling used industrial equipment and other durable assets through its unreserved live on site auctions, online marketplaces, listing services, and private brokerage services. Ritchie Bros. Auctioneers Incorporated is a company incorporated in Canada under the Canada Business Corporations Act, whose shares are publicly traded on the Toronto Stock Exchange (“TSX”) and the New York Stock Exchange (“NYSE”).

2. Significant accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with United States generally accepted accounting principles (“US GAAP”) and the following accounting policies have been consistently applied in the preparation of the consolidated financial statements. Previously, the Company prepared its consolidated financial statements under International Financial Reporting Standards (“IFRS”) as permitted by securities regulators in Canada, as well as in the United States under the status of a Foreign Private Issuer as defined by the United States Securities and Exchange Commission (“SEC”). At the end of the second quarter of 2015, the Company determined that it no longer qualified as a Foreign Private Issuer under the SEC rules. As a result, beginning January 1, 2016 the Company is required to report with the SEC on domestic forms and comply with domestic company rules in the United States. The transition to US GAAP was made retrospectively for all periods from the Company’s inception.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned and non-wholly owned subsidiaries in which the Company has a controlling financial interest either through voting rights or means other than voting rights. All inter-company transactions and balances have been eliminated on consolidation. Where the Company’s ownership interest in a consolidated subsidiary is less than 100%, the non-controlling interests’ share of these non-wholly owned subsidiaries is reported in the Company’s consolidated balance sheets as a separate component of equity or within temporary equity. The non-controlling interests’ share of the net income of these non-wholly owned subsidiaries is reported in the Company’s consolidated income statements as a deduction from the Company’s net earnings to arrive at net income attributable to stockholders of the Company.

The Company consolidates variable interest entities (“VIEs”) if the Company has (a) the power to direct matters that most significantly impact the VIEs economic performance and (b) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For VIEs where the Company has shared power with unrelated parties, the Company uses the equity method of accounting to report their results. The determination of the primary beneficiary involves judgment.

(c) Revenue recognition

Revenues are comprised of:

- commissions earned through the Company acting as an agent for consignors of equipment and other assets, at the Company’s live on site auctions and online marketplace sales, and
- fees earned in the process of conducting auctions and online marketplace sales, including online marketplace listing and inspection fees, fees from value-added services and make-ready activities, as well as fees paid by buyers on online marketplace sales.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(c) Revenue recognition (continued)

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. For live on site auctions or online marketplace sales, revenue is recognized when the auction or online marketplace sale is complete and the Company has determined that the sale proceeds are collectible. Revenue is measured at the fair value of the consideration received or receivable and is shown net of value-added tax and duties.

Commissions from sales at the Company's auctions and online marketplace sales represent the percentage earned by the Company on the gross sale proceeds from equipment and other assets sold. The majority of the Company's commissions are earned as a pre-negotiated fixed rate of the gross selling price. Other commissions from sales are earned from underwritten commission contracts, when the Company guarantees a certain level of proceeds to a consignor or purchases inventory to be sold.

Commission and fee revenues from sales at live on site auctions

The Company accepts equipment and other assets on consignment or takes title for a short period of time prior to auction, stimulates buyer interest through professional marketing techniques, and matches sellers (also known as consignors) to buyers through the auction or private sale process.

In its role as auctioneer, the Company matches buyers to sellers of equipment on consignment, as well as to inventory held by the Company, through the auction process. Following the auction, the Company invoices the buyer for the purchase price of the property, collects payment from the buyer, and where applicable, remits to the consignor the net sale proceeds after deducting its commissions, expenses, and applicable taxes. Commissions are calculated as a percentage of the hammer price of the property sold at auction. Fees earned in the process of conducting the Company's auctions include administrative, documentation, and advertising fees.

On the fall of the auctioneer's hammer, the highest bidder becomes legally obligated to pay the full purchase price, which is the hammer price of the property purchased and the seller is legally obligated to relinquish the property in exchange for the hammer price less any seller's commissions. Commission and fee revenue is recognized on the date of the auction sale upon the fall of the auctioneer's hammer, which is the point in time when the Company has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. Subsequent to the date of the auction sale, the Company's remaining obligations for its auction services relate only to the collection of the purchase price from the buyer and the remittance of the net sale proceeds to the seller. These remaining service obligations are not an essential part of the auction services provided by the Company.

Under the standard terms and conditions of its auction sales, the Company is not obligated to pay a consignor for property that has not been paid for by the buyer, provided the property has not been released to the buyer. In the rare event where a buyer refuses to take title of the property, the sale is cancelled in the period in which the determination is made, and the property is returned to the consignor or placed in a later auction. Historically, cancelled sales have not been material in relation to the aggregate hammer price of property sold at auction.

Commission revenues are recorded net of commissions owed to third parties, which are principally the result of situations when the commission is shared with a consignor or with the counterparty in an auction guarantee risk and reward sharing arrangement. Additionally, in certain situations, commissions are shared with third parties who introduce the Company to consignors who sell property at auction.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(c) Revenue recognition (continued)

Underwritten commission contracts can take the form of guarantee or inventory contracts. Guarantee contracts typically include a pre-negotiated percentage of the guaranteed gross proceeds plus a percentage of proceeds in excess of the guaranteed amount. If actual auction proceeds are less than the guaranteed amount, commission is reduced; if proceeds are sufficiently lower, the Company can incur a loss on the sale. Losses, if any, resulting from guarantee contracts are recorded in the period in which the relevant auction is completed. If a loss relating to a guarantee contract held at the period end to be sold after the period end is known or is probable and estimable at the financial statement reporting date, the loss is accrued in the financial statements for that period. The Company's exposure from these guarantee contracts fluctuates over time (note 30).

Revenues related to inventory contracts are recognized in the period in which the sale is completed, title to the property passes to the purchaser and the Company has fulfilled any other obligations that may be relevant to the transaction, including, but not limited to, delivery of the property. Revenue from inventory sales is presented net of costs within revenues on the consolidated income statement, as the Company takes title only for a short period of time and the risks and rewards of ownership are not substantially different than the Company's other underwritten commission contracts.

Commissions and fees on online marketplace sales

Through its online marketplaces, the Company typically sells equipment or other assets on consignment from sellers and stimulates buyer interest through sales and marketing techniques in order to match online marketplace sellers with buyers. Prior to offering an item for sale on its online marketplaces, the Company performs required inspections, title and lien searches, and make-ready activities to prepare the item for sale.

Online marketplace revenues are primarily driven by seller commissions, fees charged to sellers for listing and inspecting equipment, and amounts paid by buyers, including buyer transaction fees and buyer's premiums. Online marketplace sale commission and fee revenues are recognized when the sale is complete, which is generally at the conclusion of the marketplace transaction between the seller and buyer. This occurs when a buyer has become legally obligated to pay the purchase price and buyer transaction fee for an asset that the seller is obligated to relinquish in exchange for the sales price less seller commissions and listing fees. At that time, the Company has substantially performed what it must do to be entitled to receive the benefits represented by its commissions and fees.

Following the sale of the item, the Company invoices the buyer for the purchase price of the asset, taxes, and the buyer transaction fee or buyer's premium, collects payment from the buyer, and remits the proceeds – net of the seller commissions, listing fees, and applicable taxes – to the seller. The Company notifies the seller when the buyer payment has been received in order to clear release of the equipment or other asset to the seller. These remaining service obligations are not viewed to be an essential part of the services provided by the Company.

Under the Company's standard terms and conditions, it is not obligated to pay the seller for items in an online marketplace sale in which the buyer has not paid for the purchased item. If the buyer defaults on its payment obligation, the equipment or other assets may be returned to the seller or moved into a subsequent online marketplace event.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(c) Revenue recognition (continued)

Online marketplace commission revenue is reduced by a provision for disputes, which is an estimate of disputed items that are expected to be settled at a cost to the Company. This provision is related to settlement of discrepancies under the Company's equipment condition certification program. The equipment condition certification refers to a written inspection report provided to potential buyers that reflects the condition of a specific piece of equipment offered for sale, and includes ratings, comments, and photographs of the equipment following inspection by one of the Company's equipment inspectors.

The equipment condition certification provides that a buyer may file a written dispute claim during an eligible dispute period for consideration and resolution at the sole determination of the Company if the purchased equipment is not substantially in the condition represented in the inspection report. Typically disputes under the equipment condition certification program are settled with minor repairs or additional services, such as washing or detailing the item; the estimated costs of such items or services are included in the provision for disputes.

For guarantee contracts, if actual online marketplace sale proceeds are less than the guaranteed amount, the commission earned is reduced; if proceeds are sufficiently lower, the Company may incur a loss on the sale. If such consigned equipment sells above the minimum price, the Company may be entitled to a share of the excess proceeds as negotiated with the seller. The Company's share of the excess, if any, is recorded in revenue together with the related online marketplace sale commission. Losses, if any, resulting from guarantee contracts are recorded in revenue in the period in which the relevant online marketplace sale was completed. If a loss relating to a guarantee contract held at the period end to be sold after the period end is known or is probable and estimable at the financial statement reporting date, the loss is accrued in the financial statements for that period. The Company's exposure from these guarantee contracts fluctuates over time (note 30).

For inventory contracts related to online marketplace sales, revenue from the sale of inventory through the Company's online marketplaces are recorded net of acquisition costs because the acquisition of equipment in advance of an online marketplace sale is an ancillary component of the Company's business and, in general, the risks and rewards of ownership are not substantially different than the Company's other guarantee contracts. Since the online marketplace sale business is a net business, gross sale proceeds are not reported as revenue in the consolidated income statement. Rather, the net commission earned from online marketplace sales is reported as revenue, which reflects the Company's agency relationship between buyers and sellers of equipment.

Other fees

Fees from other services include financing, appraisal, and technology service fees and fees related to online marketplaces sales. The Company's revenue from online marketplace services includes fees charged to sellers for listing and inspecting equipment, and amounts paid by buyers, including buyer transaction fees and buyer's premiums, fees for make-ready activities, logistics coordination, storage, private auction hosting, and asset appraisals. Fees are recognized in the period in which the service is provided to the customer.

(d) Costs of services, excluding depreciation and amortization expenses

Costs of services are comprised of expenses incurred in direct relation to conducting auctions ("direct expenses"), earning online marketplace revenues, and earning other fee revenues. Direct expenses include direct labour, buildings and facilities charges, and travel, advertising and promotion costs.

Costs of services incurred to earn online marketplace revenues include inspection costs, facilities costs, inventory management, referral, sampling, and appraisal fees. Inspections are generally performed at the seller's physical location.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(d) Costs of services, excluding depreciation and amortization expenses (continued)

The cost of inspections include payroll costs and related benefits for the Company's employees that perform and manage field inspection services, the related inspection report preparation and quality assurance costs, fees paid to contractors who perform field inspections, related travel and incidental costs for the Company's inspection service organization, and office and occupancy costs for its inspection services personnel. Costs of earning online marketplace revenues also include costs for the Company's customer support, online marketplace operations, logistics, title and lien investigation functions, and lease and operations costs related to the Company's third-party data centers at which its websites are hosted. Costs of services incurred in earning other fee revenues include direct labour (including commissions on sales), software maintenance fees, and materials. Costs of services exclude depreciation and amortization expenses.

(e) Share-based payments

The Company classifies a share-based payment award as an equity or liability payment based on the substantive terms of the award and any related arrangement.

Equity-classified share-based payments

The Company has three stock option compensation plans that provide for the award of stock options to selected employees, directors, and officers of the Company. The cost of options granted is measured at the fair value of the underlying option at the grant date using the Black-Scholes option pricing model. The Company also has a senior executive PSU plan that provides for the award of PSUs to selected senior executives of the Company. The Company has the option to settle certain share unit awards in cash or shares, and expects to settle them in shares. The cost of PSUs granted is measured at the fair value of the underlying PSUs at the grant date using a binomial model.

This fair value of awards expected to vest under these plans is expensed over the respective remaining service period of the individual awards, on an accelerated recognition basis, with the corresponding increase to APIC recorded in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in earnings, such that the consolidated expense reflects the revised estimate, with a corresponding adjustment to equity.

Any consideration paid on exercise of the stock options is credited to the common shares. Dividend equivalents on the equity-classified PSUs are recognized as a reduction to retained earnings over the service period.

PSUs awarded under the senior executive and employee PSU plans (described in note 28) are contingently redeemable in cash in the event of death of the participant. The contingently redeemable portion of the senior executive PSU awards, which represents the amount that would be redeemable based on the conditions at the date of grant, to the extent attributable to prior service, is recognized as temporary equity. The balance reported in temporary equity increases on the same basis as the related compensation expense over the service period of the award, with any excess of the temporary equity value over the amount recognized in compensation expense charged against retained earnings. In the event it becomes probable an award is going to become eligible for redemption in cash by the holder, the award would be reclassified to a liability award.

Liability-classified share-based payments

The Company maintains other share unit compensation plans that vest over a period of up to five years after grant. Under those plans, the Company is either required or expects to settle vested awards on a cash basis or by providing cash to acquire shares on the open market on the employee's behalf, where the settlement amount is determined using the volume weighted average price of the Company's common shares for the twenty days prior to the vesting date or, in the case of deferred share unit ("DSU") recipients, following cessation of service on the Board of Directors.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(e) Share-based payments (continued)

These awards are classified as liability awards, measured at fair value at the date of grant and re-measured at fair value at each reporting date up to and including the settlement date. The determination of the fair value of the share units under these plans is described in note 28. The fair value of the awards is expensed over the respective vesting period of the individual awards with recognition of a corresponding liability. Changes in fair value after vesting are recognized through compensation expense. Compensation expense reflects estimates of the number of instruments expected to vest.

The impact of forfeitures and fair value revisions, if any, are recognized in earnings such that the cumulative expense reflects the revisions, with a corresponding adjustment to the settlement liability. Liability-classified share unit liabilities due within 12 months of the reporting date are presented in trade and other payables while settlements due beyond 12 months of the reporting date are presented in other non-current liabilities.

(f) Fair value measurement

Fair value is the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures financial instruments or discloses select non-financial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 12.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements at fair value are categorized within a fair value hierarchy, as disclosed in note 12, based on the lowest level input that is significant to the fair value measurement or disclosure. This fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

For the purposes of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liability and the level of the fair value hierarchy as explained above.

(g) Foreign currency translation

The parent entity's presentation and functional currency is the United States dollar. The functional currency for each of the parent entity's subsidiaries is the currency of the primary economic environment in which the entity operates, which is usually the currency of the country of residency.

Accordingly, the financial statements of the Company's subsidiaries that are not denominated in United States dollars have been translated into United States dollars using the exchange rate at the end of each reporting period for asset and liability amounts and the monthly average exchange rate for amounts included in the determination of earnings. Any gains or losses from the translation of asset and liability amounts are included in foreign currency translation adjustment in accumulated other comprehensive income.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(g) Foreign currency translation (continued)

In preparing the financial statements of the individual subsidiaries, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign currency differences arising on retranslation of monetary items are recognized in earnings. Foreign currency translation adjustment includes intra-entity foreign currency transactions that are of a long-term investment nature of \$18,129,000 for 2017 (2016: \$1,967,000; 2015: \$19,636,000).

(h) Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand, deposits with financial institutions, and other short-term, highly liquid investments with original maturity of three months or less when acquired, that are readily convertible to known amounts of cash.

(i) Restricted cash

In certain jurisdictions, local laws require the Company to hold cash in segregated bank accounts, which are used to settle auction proceeds payable resulting from live on site auctions and online marketplace sales conducted in those regions. In addition, the Company also holds cash generated from its EquipmentOne online marketplace sales in separate escrow accounts, for settlement of the respective online marketplace transactions as a part of its secured escrow service. Restricted cash balances also include funds held in accounts owned by the Company in support of short-term stand-by letters of credit to provide seller security.

During the period from December 21, 2016 through May 31, 2017, non-current restricted cash consisted of funds held in escrow pursuant to the offering of senior unsecured notes (note 25), which were only available when the Company received approval to acquire IronPlanet Holdings, Inc. ("IronPlanet") and whose use was restricted to the funding of the IronPlanet acquisition (note 32).

(j) Trade and other receivables

Trade receivables principally include amounts due from customers as a result of live on site auction and online marketplace transactions. The recorded amount reflects the purchase price of the item sold, including the Company's commission. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience and customer economic data.

The Company reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged against the allowance when the Company believes that the receivable will not be recovered.

(k) Inventories

Inventory consists of equipment and other assets purchased for resale in an upcoming live on site auction or online marketplace event. Inventory is valued at the lower of cost and net realizable value where net realizable value represents the expected sale price upon disposition less make-ready costs and the costs of disposal and transportation. The significant elements of cost include the acquisition price of the inventory and make-ready costs to prepare the inventory for sale that are not selling expenses. The specific identification method is used to determine amounts removed from inventory. Write-downs to the carrying value of inventory are recorded in revenue in the consolidated income statement.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(l) Equity-accounted investments

Investments in entities that the Company has the ability to exercise significant influence over, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, investments are stated at initial costs and are adjusted for subsequent additional investments and the Company's share of earnings or losses and distributions. The Company evaluates its equity-accounted investments for impairment when events or circumstances indicate that the carrying value of such investments may have experienced an other-than-temporary decline in value below their carrying value. If the estimated fair value is less than the carrying value and is considered an other than temporary decline, the carrying value is written down to its estimated fair value and the resulting impairment is recorded in the consolidated income statement.

(m) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation. Cost includes all expenditures that are directly attributable to the acquisition or development of the asset, net of any amounts received in relation to those assets, including scientific research and experimental development tax credits.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing items and restoring the site on which they are located (if applicable), and capitalized interest on qualifying assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

All repairs and maintenance costs are charged to earnings during the financial period in which they are incurred. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognized net within operating income on the income statement.

Depreciation is provided to charge the cost of the assets to operations over their estimated useful lives based on their usage as follows:

Asset	Rate / term
Land improvements	10%
Buildings	15 - 30 years
Yard equipment	20 - 30%
Automotive equipment	30%
Computer software and equipment	3 - 5 years
Office equipment	20%
Leasehold improvements	Lease term

No depreciation is provided on freehold land or on assets in the course of construction or development. Depreciation of property, plant and equipment under capital leases is recorded in depreciation expense.

Legal obligations to retire and to restore property, plant and equipment and assets under operating leases are recorded at management's best estimate in the period in which they are incurred, if a reasonable estimate can be made, with a corresponding increase in asset carrying value. The liability is accreted to face value over the remaining estimated useful life of the asset. The Company does not have any significant asset retirement obligations.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(n) Long-lived assets held for sale

Long-lived assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as assets held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured at carrying amount in accordance with the Company's accounting policies. Thereafter, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell and are not depreciated. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in operating income on the income statement.

(o) Intangible assets

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes all expenditures that are directly attributable to the acquisition or development of the asset, net of any amounts received in relation to those assets, including scientific research and experimental development tax credits. Costs of internally developed software are amortized on a straight-line basis over the remaining estimated economic life of the software product. Costs related to software incurred prior to establishing technological feasibility or the beginning of the application development stage of software are charged to operations as such costs are incurred. Once technological feasibility is established or the application development stage has begun, directly attributable costs are capitalized until the software is available for use.

Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are:

Asset	Rate / term
Trade names and trademarks	3 - 15 years or indefinite-lived
Customer relationships	6 - 20 years
Software assets	3 - 7 years

Customer relationships includes relationships with buyers and sellers.

(p) Impairment of long-lived and indefinite-lived assets

Long-lived assets, comprised of property, plant and equipment and intangible assets subject to amortization, are assessed for impairment whenever events or circumstances indicate that their carrying value may not be recoverable. For the purpose of impairment testing, long-lived assets are grouped and tested for recoverability at the lowest level that generates independent cash flows. An impairment loss is recognized when the carrying value of the assets or asset groups is greater than the future projected undiscounted cash flows. The impairment loss is calculated as the excess of the carrying value over the fair value of the asset or asset group. Fair value is based on valuation techniques or third party appraisals. Significant estimates and judgments are applied in determining these cash flows and fair values.

Indefinite-lived intangible assets are tested annually for impairment as of December 31, and between annual tests if indicators of potential impairment exist. The Company has the option of performing a qualitative assessment to first determine whether the quantitative impairment test is necessary. This involves an assessment of qualitative factors to determine the existence of events or circumstances that would indicate whether it is more likely than not that the carrying amount of the indefinite-lived intangible asset is less than its fair value. If the qualitative assessment indicates it is not more likely than not that the carrying amount is less than its fair value, a quantitative impairment test is not required. Where a quantitative impairment test is required, the procedure is to compare the indefinite-lived intangible asset's fair value with its carrying amount. An impairment loss is recognized as the difference between the indefinite-lived intangible asset's carrying amount and its fair value.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(q) Goodwill

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to the assets acquired and liabilities assumed in a business combination.

Goodwill is not amortized, but it is tested annually for impairment at the reporting unit level as of December 31, and between annual tests if indicators of potential impairment exist. The Company has the option of performing a qualitative assessment of a reporting unit to first determine whether the quantitative impairment test is necessary. This involves an assessment of qualitative factors to determine the existence of events or circumstances that would indicate whether it is more likely than not that the carrying amount of the reporting unit to which goodwill belongs is less than its fair value. If the qualitative assessment indicates it is not more likely than not that the reporting unit's carrying amount is less than its fair value, a quantitative impairment test is not required.

Where a quantitative impairment test is required, the procedure is to identify potential impairment by comparing the reporting unit's fair value with its carrying amount, including goodwill. The reporting unit's fair value is determined using various valuation approaches and techniques that involve assumptions based on what the Company believes a hypothetical marketplace participant would use in estimating fair value on the measurement date. An impairment loss is recognized as the difference between the reporting unit's carrying amount and its fair value. If the difference between the reporting unit's carrying amount and fair value is greater than the amount of goodwill allocated to the reporting unit, the impairment loss is restricted by the amount of the goodwill allocated to the reporting unit.

(r) Deferred financing costs

Deferred financing costs represent the unamortized costs incurred on the issuance of the Company's long-term debt. Amortization of deferred financing costs is provided on the effective interest rate method over the term of the facility. Deferred financing costs relating to the Company's term debt are presented in the consolidated balance sheet as a direct reduction of the carrying amount of the long-term debt. Deferred financing costs relating to the Company's revolving loans are presented on the balance sheet as a deferred charge.

(s) Taxes

Income tax expense represents the sum of current tax expense and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the period and includes any adjustments to tax payable in respect of previous years. Taxable profit differs from income before income taxes as reported in the consolidated income statement because it excludes (i) items of income or expense that are taxable or deductible in other years and (ii) items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax

Income taxes are accounted for using the asset and liability method. Deferred income tax assets and liabilities are based on temporary differences, which are differences between the accounting basis and the tax basis of the assets and liabilities and non-capital loss, capital loss, and tax credits carryforwards are measured using the enacted tax rates and laws expected to apply when these differences reverse. Deferred tax benefits, including non-capital loss, capital loss, and tax credits carryforwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that enactment occurs. When realization of deferred income tax assets does not meet the more-likely-than-not criterion for recognition, a valuation allowance is provided.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(s) Taxes (continued)

Deferred tax (continued)

Under US GAAP, changes in tax rates and tax law are accounted for in the period of enactment. The 2017 Tax Cuts and Jobs Act (“TCJA”) was enacted on December 22, 2017. ASC 740, *Income Taxes*, requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled, which may impact the carrying values of deferred tax assets and liabilities. The effect of a change in tax law is recorded as a discrete component of the income tax provision related to continuing operations in the period of enactment. Changes in the valuation allowance assessment due to the 2017 TCJA would also be recorded to continuing operations in the tax provision.

Interest and penalties related to income taxes, including unrecognized tax benefits, are recorded in income tax expense in the income statement.

Liabilities for uncertain tax positions are recorded based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company regularly assesses the potential outcomes of examinations by tax authorities in determining the adequacy of its provision for income taxes. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, income taxes payable, and deferred taxes in the period in which the facts that give rise to a revision become known.

(t) Contingently redeemable non-controlling interest

Contingently redeemable equity instruments are initially recorded at their fair value on the date of issue within temporary equity on the balance sheet. When the equity instruments become redeemable or redemption is probable, the Company recognizes changes in the estimated redemption value immediately as they occur, and adjusts the carrying amount of the redeemable equity instrument to equal the estimated redemption value at the end of each reporting period. Changes to the carrying value are charged or credited to retained earnings attributable to stockholders on the balance sheet.

Redemption value determinations require high levels of judgment (“Level 3” on the fair value hierarchy) and are based on various valuation techniques, including market comparables and discounted cash flow projections.

(u) Earnings per share

Basic earnings per share has been calculated by dividing net income attributable to stockholders by the weighted average number of common shares outstanding. Diluted earnings per share has been calculated after giving effect to outstanding dilutive stock options calculated by adjusting the net income attributable to stockholders and the weighted average number of shares outstanding for all dilutive shares.

(v) Defined contribution plans

The employees of the Company are members of retirement benefit plans to which the Company matches up to a specified percentage of employee contributions or, in certain jurisdictions, contributes a specified percentage of payroll costs as mandated by the local authorities. The only obligation of the Company with respect to the retirement benefit plans is to make the specified contributions.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(w) Advertising costs

Advertising costs are expensed as incurred. Advertising expense is included in costs of services and selling, general and administrative (“SG&A”) expenses on the accompanying consolidated income statements.

(x) Early adoption of new accounting pronouncements

- (i) In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 from the goodwill impairment test. Entities still have the option of performing a qualitative assessment of a reporting unit to first determine whether the quantitative impairment test is necessary. Where an annual or interim quantitative impairment test is necessary, there is only one step, which is to compare the fair value of a reporting unit with its carrying value. An impairment loss is recognized as the difference between the reporting unit’s carrying amount and its fair value to the extent the difference does not exceed the total amount of goodwill allocated to the reporting unit.

ASU 2017-04 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for interim and annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments are applied on a prospective basis. Because the amendments reduce the cost and complexity of goodwill impairment testing, the Company early adopted ASU 2017-04 in the first quarter of 2017.

- (ii) In June 2017, the Company adopted ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 clarifies that the effects of a modification should be accounted for unless all the following criteria are met:

1. The fair value (or calculated or intrinsic value, as appropriate) of the modified award is the same as the fair value (or calculated or intrinsic value, as appropriate) of the original award immediately before the modification. The value immediately before and after the modification does not have to be estimated if the modification does not affect any of the inputs to the valuation technique used to value the award.
2. The modified award’s vesting conditions are the same as those of the original award immediately before the modification.
3. The classification of the modified award as an equity or liability instrument is the same as the original award’s classification immediately before the modification.

Adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

(y) New and amended accounting standards

- (i) Effective January 1, 2017, the Company adopted ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*, which impacts entities that are issuers of or investors in debt instruments – or hybrid financial instruments determined to have a debt host – with embedded call (put) options. One of the criteria for bifurcating an embedded derivative is assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to those of their debt hosts. The amendments of ASU 2016-06 clarify the steps required in making this assessment for contingent call (put) options that can accelerate the payment of principal on debt instruments. Specifically, ASU 2016-06 requires the call (or put) options to be assessed solely in accordance with a four-step decision sequence. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the triggering event is related to interest rates or credit risks. The standard was applied on a modified retrospective basis to existing debt instruments as of January 1, 2017. Adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(y) New and amended accounting standards (continued)

(ii) Effective January 1, 2017, the Company adopted ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which requires an entity to recognize share-based payment (“SBP”) award income tax effects in the consolidated income statement when the awards vest or are settled. Consequently, the requirement for entities to track APIC pools is eliminated. Other amendments include:

- All excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) are recognized as income tax expense or benefit in the consolidated income statement. The tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur. Excess tax benefits are recognized regardless of whether the benefit reduces taxes payable in the current period. These amendments were applied prospectively.
- Because excess taxes no longer flow through APIC, when applying the treasury stock method in calculating diluted earnings per share (“EPS”), the assumed proceeds will no longer include any estimated excess taxes.
- Excess tax benefits increase assumed proceeds, which results in more hypothetical shares being reacquired. The incremental number of dilutive shares for diluted EPS is calculated as the number of shares from the assumed exercise of the stock less the hypothetical shares reacquired. Therefore, removing excess tax benefits from the equation results in fewer hypothetical shares being reacquired, increasing the incremental number of dilutive shares.
- Excess tax benefits are classified along with other income tax cash flows as an operating activity in the statement of cash flows. The Company elected to apply this amendment prospectively.
- An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. Since forfeiture rates of the Company’s stock awards have historically been nominal and represent an insignificant assumption used in management’s estimate of the fair value of those awards, the Company has elected to account for forfeitures as they occur. This accounting policy change was applied on a modified retrospective basis and did not have an impact on the Company’s consolidated financial statements.
- The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. This amendment was applied on a modified retrospective basis.
- Cash paid by an employer when directly withholding shares for tax-withholding purposes is classified as a financing activity in the statement of cash flows. This amendment was applied prospectively.

Adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

(z) Recent accounting standards not yet adopted

(i) In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In particular, it moves away from the current industry and transaction specific requirements. ASU 2014-09 creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include:

1. Identifying the contract(s) with the customer,
2. Identifying the separate performance obligations in the contract,
3. Determining the transaction price,
4. Allocating the transaction price to the separate performance obligations, and
5. Recognizing revenue as each performance obligation is satisfied.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(z) Recent accounting standards not yet adopted (continued)

The amendments also contain extensive disclosure requirements designed to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB delayed the effective date of ASU 2014-09 by one year so that ASU 2014-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. ASU 2014-09 permits the use of either the retrospective or modified retrospective (cumulative effect) transition method.

In 2015, the Company established a global new revenue accounting standard adoption team, consisting of financial reporting and accounting advisory representatives from across all geographical regions and business operations (the “Team”). The Team developed an adoption framework that continues to be used as guidance in identifying the Company’s significant contracts with customers. In 2016, the Team commenced its analysis, with the initial focus being on the impact of the amendments on accounting for the Company’s straight commission contracts, underwritten (inventory and guarantee) commission contracts, and ancillary service contracts. The Team is currently completing the process of identifying the appropriate changes to the Company’s business processes, systems, and controls required to adopt the amendments based on preliminary findings.

Since its inception, the Team has regularly reported the findings and progress of the adoption project to management and the Audit Committee. Based on these findings and analysis, management has determined that the Company will not early adopt ASU 2014-09. The reason for not early adopting and for electing to use a full retrospective method was primarily due to the Company’s acquisition of IronPlanet on May 31, 2017. Management believes that using a full retrospective method will provide more useful comparative information to financial statement users. The Company also continues to evaluate recently issued guidance on practical expedients as part of the adoption method decision.

The Team concluded that one of the most significant impacts of the adoption of ASU 2014-09 will be a change in the presentation of revenue from the majority of inventory, ancillary service, and Ritchie Bros. Logistical Services contracts as gross as a principal versus net as an agent. The Team’s analysis of these significant contracts with customers was aided by the FASB issuing ASU 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations, focusing on whether an entity controls a specified good or service before that good or service is transferred to a customer.

SEC Regulation S-X Rule 5-03.1 requires revenue from the sale of tangible products to be presented as a separate line item of the face of the consolidated income statement from revenues from services where income from one or both of those classes is more than 10 percent the sum of total revenues. Similarly, SEC Regulation Rule 5-03.2 requires the costs related to those revenue classes to be presented in the same manner. Based on historical information, the Team expects revenue from inventory contracts that are recognized gross as a principal selling tangible products to exceed 10 percent of total revenues.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(z) Recent accounting standards not yet adopted (continued)

Presenting most inventory contract revenues gross as a principal selling a tangible product versus net as an agent providing a service will significantly change the face of the Company's consolidated income statement. Currently, all revenue from inventory sales is presented net of costs within service revenues on the income statement. After ASU 2014-09 is adopted, service revenues will exclude revenue from inventory sales and cost of inventory sold for inventory contracts recorded on a gross basis. Those amounts will instead be presented gross as separate line items on the face of the consolidated income statement in accordance with SEC Regulation S-X Rules 5-03.1 and 5-03.2. Ancillary service and RB Logistical Services revenues will be presented within service revenues, but on a gross basis, with related service presented separately within costs of services.

The Team, together with oversight from the Audit Committee, will also continue to closely monitor FASB activity related to ASU 2014-09 to conclude on specific interpretative issues. Over the remaining term until ASU 2014-09 takes effect, the Team will complete its assessment of the impact of the new standard on remaining contracts with customers, as well as evaluate the impact on financial statement disclosures and processes that capture information required for the revised financial statement presentation. The Team will also continue to work with management to determine the impact of the change in presentation on the key performance metrics used to evaluate operational performance of the Company.

Expected impact to reported results

While continuing to assess all potential impacts of adoption of ASU 2014-09, the Team's current analysis indicates that the most significant change will be the gross versus net presentation described above. This presentation is expected to increase the amount of revenue reported compared to the current presentation. Presenting these revenues gross as a principal versus net as an agent has no impact on operating income. The Company expects the effects of this change to be as follows:

Year ended December 31,	As reported		Year ended December 31,	New revenue standard	
	2017	2016		2017	2016
			Revenue from inventory sales	\$ 346,774	\$ 571,134
			Service revenues	624,417	555,843
Revenues	\$ 610,517	\$ 566,395	Total revenues	971,191	1,126,977
			Cost of inventory sold	(306,498)	(513,348)
Costs of services, excluding depreciation and amortization ("D&A")	(79,013)	(66,062)	Costs of services, excluding D&A	(133,189)	(113,296)
	<u>\$ 531,504</u>	<u>\$ 500,333</u>	Gross profit	<u>\$ 531,504</u>	<u>\$ 500,333</u>

- (ii) In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize almost all leases, including operating leases, on the balance sheet through a right-of-use asset and a corresponding lease liability. For short-term leases, defined as those with a term of 12 months or less, the lessee is permitted to make an accounting policy election not to recognize the lease assets and liabilities, and instead recognize the lease expense generally on a straight-line basis over the lease term. The accounting treatment under this election is consistent with current operating lease accounting. No extensive amendments were made to lessor accounting, but amendments of note include changes to the definition of initial direct costs and accounting for collectability uncertainties in a lease.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(z) Recent accounting standards not yet adopted (continued)

ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. Both lessees and lessors must apply ASU 2016-02 using a “modified retrospective transition”, which reflects the new guidance from the beginning of the earliest period presented in the financial statements. However, lessees and lessors can elect to apply certain practical expedients on transition.

Management continues to perform a detailed inventory and analysis of all the Company’s leases, of which there are approximately 460 operating and 105 finance leases for which the Company is a lessee at the reporting date. The most significant operating leases in terms of the amount of rental charges and duration of the contract are for various auction sites and offices located in North America, Europe, the Middle East, and Asia. However, in terms of the number of leases, the majority consist of leases for computer, automotive, and yard equipment.

The Company continues to evaluate the new guidance to determine the impact it will have on its consolidated financial statements. Under the expectation that the majority, if not all, of the operating leases will be brought onto the Company’s balance sheet on adoption of ASU 2016-02, management is also investigating the functionality within the Company’s systems to automate the lease accounting process.

The adoption of ASU 2016-02 is expected to add complexity to the accounting for leases, as well as require extensive system and process changes to manage the large number of operating leases that the Company anticipates will be brought onto its balance sheet. As a result, management has determined that the Company will not early adopt ASU 2016-02, and will continue to evaluate the elections available to the Company involving the application of practical expedients on transition.

- (iii) In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations, focusing on whether an entity controls a specified good or service before that good or service is transferred to a customer. Where such control exists – i.e. where the entity is required to provide the specified good or service itself – the entity is a ‘principal’. Where the entity is required to arrange for another party to provide the good or service, it is an agent.

The effective date and transition requirements of ASU 2016-08 are the same as for ASU 2014-09, which is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The impact of adoption of ASU 2016-08 on the Company’s consolidated financial statements has been considered as part of the ASU 2014-09 adoption project discussed above.

- (iv) In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which replaces the ‘incurred loss methodology’ credit impairment model with a new forward-looking “methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.” ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is only permitted for fiscal years beginning after December 15, 2018, including interim periods within those years. The Company is evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

2. Significant accounting policies (continued)

(z) Recent accounting standards not yet adopted (continued)

- (v) In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 identifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. The amendments are applied retrospectively on the amendment date. The Company expects the adoption of ASU 2016-15 will result in the \$1,302,000 Mascus contingent consideration paid in the second quarter of 2017 to be reclassified from operating to investing cash flows.
- (vi) In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, whose amendments provide a screen to determine when an integrated set of assets and activities does not constitute a business as defined by Topic 805. Specifically, the amendments require that a set is not a business when substantially all the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets. This screen reduces the number of transactions that need to be further evaluated and as such, it is anticipated that more acquisitions will be accounted for as asset acquisitions rather than business combinations. If the screen is not met, the amendments:
- 1) Require that the set must, at a minimum, include an input and a substantive process that together significantly contribute to the ability to create an output in order to be considered a business; and
 - 2) Remove the evaluation of whether a market participant could replace missing elements.

The amendments also provide a framework to assist in evaluating whether both an input and a substantive process are present, and this framework includes two sets of criteria to consider that depend on whether a set has outputs. Finally, the amendments narrow the definition of the term “output” so the term is consistent with how outputs are described in Topic 606 *Revenue from Contracts with Customers*.

ASU 2017-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The amendments are applied prospectively on or after the effective date.

- (vii) In February 2017, the FASB issued ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, which adds clarity around the scope of Subtopic 610-20, the accounting for partial sales of nonfinancial assets, and the identification of, allocation of consideration to, and derecognition of distinct nonfinancial assets. The amendments also define ‘in substance nonfinancial assets’, which are within the scope of Subtopic 610-20, and clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty.

ASU 2017-05 is effective at the same time as ASU 2014-09, which is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The amendments in ASU 2017-05 must be applied at the same time as the amendments in ASU 2014-09. Entities may elect to apply these amendments retrospectively to each period presented in the financial statements or using a modified retrospective basis as of the beginning of the fiscal year of adoption. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

3. Significant judgments, estimates and assumptions

The preparation of financial statements in conformity with US GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Future differences arising between actual results and the judgments, estimates and assumptions made by the Company at the reporting date, or future changes to estimates and assumptions, could necessitate adjustments to the underlying reported amounts of assets, liabilities, revenues and expenses in future reporting periods.

Judgments, estimates and underlying assumptions are evaluated on an ongoing basis by management, and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. However, existing circumstances and assumptions about future developments may change due to market changes or circumstance and such changes are reflected in the assumptions when they occur. Significant items subject to estimates include purchase price allocations, the carrying amounts of goodwill, the useful lives of long-lived assets, share based compensation, deferred income taxes, reserves for tax uncertainties, and other contingencies.

4. Segmented information

The Company's principal business activity is the management and disposition of used industrial equipment and other durable assets. During the period ended December 31, 2017, the Company continued to integrate its IronPlanet acquisition, which resulted in changes in the basis of organization of the Company, including its leadership structure, sales processes, and management reporting. Most significantly, the Chief Operating Decision Maker ("CODM") began to assess the performance of the business and allocate resources based on whether the Company's services are transactional (generating value from the disposition of assets) or non-transactional in nature, and redesigned key metrics accordingly.

These changes resulted in the identification of the following new operating segments as of September 30, 2017:

- Auctions and Marketplaces ("A&M") – This is the Company's only reportable operating segment, which consists of the Company's live on site auctions, its online auctions and marketplaces, and its brokerage service;
- Ritchie Bros. Financial Services ("RBFS") – This is the Company's financial brokerage service, which is reported within the "other" category; and
- Mascus – This is the Company's online listing service, which is reported within the "other" category.

The "other" category also includes results from various value-added services and make-ready activities, including the Company's equipment refurbishment services, Asset Appraisal Services, and Ritchie Bros. Logistical Services.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

4. Segmented information (continued)

	Year ended December 31, 2017		
	A&M	Other	Consolidated
Revenues	\$ 564,298	\$ 46,219	\$ 610,517
Costs of services, excluding D&A	(75,685)	(3,328)	(79,013)
SG&A expenses	(308,874)	(14,396)	(323,270)
Impairment loss	(8,911)	-	(8,911)
Segment profit	\$ 170,828	\$ 28,495	\$ 199,323
Acquisition-related costs			(38,272)
D&A expenses			(52,694)
Gain on disposition of Property, plant and equipment ("PPE")			1,656
Foreign exchange loss			(2,559)
Operating income			\$ 107,454
Other expense, net			(30,060)
Income tax expense			(2,088)
Net income			\$ 75,306

	Year ended December 31, 2016		
	A&M	Other	Consolidated
Revenues	\$ 531,826	\$ 34,569	\$ 566,395
Costs of services, excluding D&A	(65,248)	(814)	(66,062)
SG&A expenses	(272,317)	(11,212)	(283,529)
Impairment loss	(28,243)	-	(28,243)
Segment profit	\$ 166,018	\$ 22,543	\$ 188,561
Acquisition-related costs			(11,829)
D&A expenses			(40,861)
Gain on disposition of PPE			1,282
Foreign exchange loss			(1,431)
Operating income			\$ 135,722
Other expense, net			(5,228)
Income tax expense			(36,982)
Net income			\$ 93,512

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

4. Segmented information (continued)

	Year ended December 31, 2015		
	A&M	Other	Consolidated
Revenues	\$ 505,865	\$ 10,010	\$ 515,875
Costs of services, excluding D&A	(56,026)	-	(56,026)
SG&A expenses	(249,852)	(4,537)	(254,389)
Segment profit	\$ 199,987	\$ 5,473	\$ 205,460
Acquisition-related costs			(601)
D&A expenses			(42,032)
Gain on disposition of PPE			9,691
Foreign exchange gain			2,322
Operating income			\$ 174,840
Other income, net			1,596
Income tax expense			(37,861)
Net income			\$ 138,575

Certain prior period SG&A expenses have been retrospectively reclassified between the A&M segment and the other category to conform with the current presentation. Details of the reclassifications are as follows:

	At September 30, 2017	At June 30, 2017	At March 31, 2017	December 31, 2016
A&M SG&A expenses:				
As reported	\$ 81,964	\$ 71,199	\$ 67,392	\$ 273,179
Current presentation	81,736	70,977	67,111	272,317
Other SG&A expenses:				
As reported	\$ 3,371	\$ 3,178	\$ 3,183	\$ 10,350
Current presentation	3,599	3,400	3,464	11,212

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

4. Segmented information (continued)

The carrying value of goodwill of \$649,770,000 has been allocated to A&M and \$21,152,000 has been allocated to other. As in prior periods, the CODM does not evaluate the performance of its operating segments based on segment assets and liabilities, nor does the Company classify liabilities on a segmented basis.

As at December 31,	2017	2016
A&M	\$ 649,770	\$ 78,934
Other	21,152	18,603
	<u>\$ 670,922</u>	<u>\$ 97,537</u>

The Company's geographic information as determined by the revenue and location of assets, which represents property, plant and equipment is as follows:

	United States	Canada	Europe	Other	Consolidated
Revenues for the year ended:					
December 31, 2017	\$ 325,244	\$ 168,928	\$ 68,408	\$ 47,937	\$ 610,517
December 31, 2016	278,198	187,699	52,809	47,689	566,395
December 31, 2015	257,824	166,528	48,419	43,104	515,875
	United States	Canada	Europe	Other	Consolidated
Long-lived assets:					
December 31, 2017	\$ 275,628	\$ 116,833	\$ 82,795	\$ 51,325	\$ 526,581
December 31, 2016	282,103	108,693	74,491	49,743	515,030

5. Revenues

The Company's revenue from the rendering of services is as follows:

Year ended December 31,	2017	2016	2015
Commissions	\$ 434,672	\$ 424,128	\$ 405,308
Fees	175,845	142,267	110,567
	<u>\$ 610,517</u>	<u>\$ 566,395</u>	<u>\$ 515,875</u>

Net profits on inventory sales included in commissions are:

Year ended December 31,	2017	2016	2015
Revenue from inventory sales	\$ 346,774	\$ 571,134	\$ 555,827
Cost of inventory sold	(306,498)	(513,348)	(511,892)
	<u>\$ 40,276</u>	<u>\$ 57,786</u>	<u>\$ 43,935</u>

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

6. Operating expenses**Costs of services, excluding D&A**

Year ended December 31,	2017	2016	2015
Employee compensation expenses	\$ 35,440	\$ 27,856	\$ 22,855
Buildings, facilities and technology expenses	8,359	7,966	7,179
Travel, advertising and promotion expenses	23,994	23,688	22,150
Other costs of services	11,220	6,552	3,842
	<u>\$ 79,013</u>	<u>\$ 66,062</u>	<u>\$ 56,026</u>

SG&A expenses

Year ended December 31,	2017	2016	2015
Employee compensation expenses	\$ 208,370	\$ 180,929	\$ 166,227
Buildings, facilities and technology expenses	53,151	49,219	41,404
Travel, advertising and promotion expenses	30,440	24,384	22,307
Professional fees	13,522	13,344	12,500
Other SG&A expenses	17,787	15,653	11,951
	<u>\$ 323,270</u>	<u>\$ 283,529</u>	<u>\$ 254,389</u>

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

6. Operating expenses (continued)**Acquisition-related costs**

Acquisition-related costs consist of operating expenses directly incurred as part of a business combination, due diligence and integration planning related to the IronPlanet acquisition (note 32), and continuing employment costs that are recognized separately from our business combinations. In the fourth quarter of 2016, the definition of acquisition-related costs was expanded to include continuing employment costs incurred to retain key employees for a specified period of time following a business acquisition. This change was applied retrospectively and resulted in a further reclassification of SG&A expenses to acquisition-related costs.

Year ended December 31,	2017	2016	2015
IronPlanet: (note 32)			\$ -
Stock option compensation expense (note 28)	\$ 4,752	\$ -	
Legal costs	8,898	3,402	
Other acquisition-related costs	21,003	4,800	
Mascus: (note 32)			
Continuing employment costs	530	954	-
Other acquisition-related costs	22	766	-
Xcira:			
Continuing employment costs	1,811	1,111	191
Other acquisition-related costs	-	-	410
Petrowsky: (note 32)			
Continuing employment costs	649	350	-
Other acquisition-related costs	4	254	-
Kramer: (note 32)			
Continuing employment costs	428	76	-
Other acquisition-related costs	79	116	-
Other	96	-	-
	<u>\$ 38,272</u>	<u>\$ 11,829</u>	<u>\$ 601</u>

Depreciation and amortization expenses

Year ended December 31,	2017	2016	2015
Depreciation expense	\$ 28,337	\$ 30,983	\$ 35,374
Amortization expense	24,357	9,878	6,658
	<u>\$ 52,694</u>	<u>\$ 40,861</u>	<u>\$ 42,032</u>

During the year ended December 31, 2017, depreciation expense of \$1,207,000 (2016: \$2,880,000; 2015: \$4,340,000) and amortization expense of \$11,662,000 (2016: \$7,218,000; 2015: \$4,680,000) were recorded relating to software.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

7. Impairment Loss

Goodwill impairment

The Company performs impairment tests on goodwill on an annual basis in accordance with US GAAP, or more frequently if events or changes in circumstances indicate that those assets might be impaired. Goodwill is tested for impairment at a reporting unit level, which is at the same level or one level below an operating segment. A goodwill impairment loss is recognized when the carrying amount of the reporting unit is greater than its fair value. The goodwill impairment loss is calculated as the excess of the carrying amount of the goodwill over its implied fair value. During the year ended December 31, 2017 there was no goodwill impairment identified.

Goodwill arising from the acquisition of AssetNation, the provider of an online marketplace, was part of the former EquipmentOne reporting unit. During the year ended December 31, 2016, an indicator of impairment was identified with respect to the EquipmentOne reporting unit. The indicator consisted of a decline in actual and forecasted revenue and operating income compared with previously projected results, which was primarily due to the recent performance of the EquipmentOne reporting unit.

Based on the results of the goodwill impairment test, the Company recorded an impairment loss on the EquipmentOne reporting unit goodwill of \$23,574,000 in the year ended December 31, 2016.

Long-lived asset impairment

Long-lived assets, which are comprised of property, plant and equipment and definite-lived intangible assets, are assessed for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. For the purpose of impairment testing, long-lived assets are grouped and tested for recoverability at the lowest level that generates independent cash flows from another asset group. The carrying amount of the long-lived asset group is not recoverable if it exceeds the sum of the future undiscounted cash flows expected to result from the long-lived asset group's use and eventual disposition. Where the carrying amount of the long-lived asset group is not recoverable, its fair value is determined in order to calculate any impairment loss. An impairment loss is measured as the excess of the long-lived asset group's carrying amount over its fair value.

During the year ended December 31, 2017, management identified indicators of impairment on certain software and software under development intangible assets (the "technology assets"). The indicators consisted of decisions made after the acquisition of IronPlanet that adversely impacted the extent or manner in which certain technology assets would be utilized. As part of its integration activities the Company determined that it was more likely than not that certain technology assets would not be utilized or developed as originally intended and no longer had value. As a result, management performed an impairment test that resulted in the recognition of an impairment loss of \$8,911,000 on the technology assets.

At September 30, 2016, for the same reason noted above under the EquipmentOne goodwill impairment test, management determined that there was an indicator that the carrying amount of the long-lived assets arising from our acquisition of AssetNation (the "EquipmentOne long-lived assets") might not have been recoverable. As such, the Company performed the recoverability test, for which purpose management determined that the asset group to which the EquipmentOne long-lived assets belonged was the EquipmentOne reporting unit.

Based on the results of the long-lived asset impairment test, the Company recorded an impairment loss on the EquipmentOne reporting unit customer relationships of \$4,669,000 in the year ended December 31, 2016. In connection with this impairment loss, the Company recorded a deferred tax benefit of \$1,798,000 to the income tax provision. The result of this impairment test was reflected in the carrying value of the former EquipmentOne reporting unit prior to the completion of the goodwill impairment test described above.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

8. Income taxes

The expense for the year can be reconciled to income before income taxes as follows:

Year ended December 31,	2017	2016	2015
Income before income taxes	\$ 77,394	\$ 130,494	\$ 176,436
Statutory federal and provincial tax rate in Canada	26.00%	26.00%	26.00%
Expected income tax expense	\$ 20,122	\$ 33,928	\$ 45,873
Impairment of goodwill	-	6,129	-
Non-deductible expenses	5,668	3,891	2,579
Non-taxable income	(105)	(624)	-
Sale of capital property	-	-	(1,291)
Changes in the valuation of deferred tax assets	(1,089)	(259)	(5,828)
Different tax rates of subsidiaries operating in foreign jurisdictions	(12,269)	(3,786)	(3,426)
Change in enacted rates	(10,299)	51	307
Change in estimate of deductibility of stock options	(1,557)	-	-
Unrecognized tax benefits	3,291	799	1,362
Benefits of deductible stock options vested and exercised	(1,359)	(1,042)	(666)
Deductions for tax purposes in excess of accounting expenses	(380)	(490)	(232)
Other	65	(1,615)	(817)
	<u>\$ 2,088</u>	<u>\$ 36,982</u>	<u>\$ 37,861</u>

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

8. Income taxes (continued)

The income tax expense (recovery) consists of:

Year ended December 31,	2017	2016	2015
Canadian:			
Current tax expense	\$ 14,245	\$ 30,525	\$ 27,623
Deferred tax expense	(10,192)	(2,068)	1,880
Foreign:			
Current tax expense before application of operating loss carryforwards	8,987	12,126	16,707
Tax benefit of operating loss carryforwards	(3,876)	(2,310)	(1,910)
Total foreign current tax expense	5,111	9,816	14,797
Deferred tax expense before adjustment to opening valuation allowance	(6,317)	(1,291)	(273)
Adjustment to opening valuation allowance	(759)	-	(6,166)
Total foreign deferred tax expense	(7,076)	(1,291)	(6,439)
	<u>\$ 2,088</u>	<u>\$ 36,982</u>	<u>\$ 37,861</u>

The foreign provision for income taxes is based on foreign pre-tax earnings of \$64,252,000, \$25,139,000, and \$64,139,000 in 2017, 2016, and 2015, respectively. The Company's consolidated financial statements provide for any related tax liability on undistributed earnings. As of December 31, 2017, income taxes have not been provided on a cumulative total of \$466,000,000 of such earnings that are not indefinitely reinvested. The amount of unrecognized deferred tax liability related to these temporary differences is estimated to be approximately \$8,600,000. Earnings retained by subsidiaries and equity-accounted investments amount to approximately \$469,000,000 in 2017 (2016: \$450,000,000; 2015: \$411,000,000). The Company accrues withholding and other taxes that would become payable on the distribution of earnings only to the extent that either the Company does not control the relevant entity or it is expected that these earnings will be remitted in the foreseeable future.

Recent Tax Legislation

The TCJA was enacted on December 22, 2017. The TCJA reduces the United States federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and certain other provisions. At December 31, 2017, we have not completed our accounting for the tax effects of the TCJA. However, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. We have recognized a provisional amount of \$9,734,000, which is included as a component of income tax expense.

We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. However, we are still analyzing certain aspects of the TCJA and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred amounts. The provisional amount resulted in a reduction of our net deferred tax liabilities of \$10,070,000 and a corresponding deferred income tax benefit in 2017.

The one-time transition tax is based on our total post-1986 earnings and profits ("E&P") of controlled foreign affiliates of our US subsidiaries that we previously deferred from US income tax. Upon enactment, there is a one-time deemed repatriation tax on undistributed E&P (the "transition tax"). We recognized tax expense of \$336,000 related to the transition tax in 2017.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

8. Income taxes (continued)

The tax effects of temporary differences that give rise to significant deferred tax assets and deferred tax liabilities were as follows:

As at December 31,	2017	2016
Deferred tax assets:		
Working capital	\$ 9,583	\$ 3,991
Property, plant and equipment	6,495	5,475
Goodwill	1,016	341
Share-based compensation	5,733	3,154
Unused tax losses	50,967	17,790
Other	8,919	8,251
	82,713	39,002
Deferred tax liabilities:		
Property, plant and equipment	\$ (9,779)	\$ (10,019)
Goodwill	(9,202)	(12,976)
Intangible assets	(54,401)	(11,062)
Other	(8,628)	(2,565)
	(82,010)	(36,622)
Net deferred tax assets	\$ 703	\$ 2,380
Valuation allowance	(14,363)	(10,411)
	\$ (13,660)	\$ (8,031)

Certain comparative figures have been reclassified to conform to current year presentation. Details of the reclassifications are as follows:

	December 31, 2016
Deferred tax assets	
As reported	\$ 19,129
Reclassified to Other non-current assets (note 19)	(10,035)
Current presentation	9,094
Deferred tax liabilities	
As reported	\$ 36,387
Reclassified to Other non-current liabilities (note 26)	(19,262)
Current presentation	17,125
Net deferred tax assets (liabilities)	
As reported	\$ (17,258)
Net reclassification detailed above	9,227
Current presentation	(8,031)

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

8. Income taxes (continued)

At December 31, 2017, the Company had non-capital loss carryforwards that are available to reduce taxable income in the future years. These non-capital loss carryforwards expire as follows:

2018	\$	510
2019		148
2020		6,267
2021		5,125
2022 and thereafter		199,986
	\$	<u>212,036</u>

The Company has capital loss carryforwards of approximately \$11,343,000 in 2017 (2016: \$16,564,000) available to reduce future capital gains which carryforward indefinitely.

Tax losses are denominated in the currency of the countries in which the respective subsidiaries are located and operate. Fluctuations in currency exchange rates could reduce the U.S. dollar equivalent value of these tax loss and research tax credit carryforwards in future years.

In assessing the realizability of our deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become deductible and the loss carryforwards or tax credits can be utilized. Management considers projected future taxable income and tax planning strategies in making our assessment.

Uncertain tax positions

Tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of the benefit to recognize in the financial statements. The tax position is measured as the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company classifies unrecognized tax benefits that are not expected to result in the payment or receipt of cash within one year as non-current liabilities in the consolidated balance sheets.

At December 31, 2017, the Company had gross unrecognized tax benefits of \$25,910,000 (2016: \$19,262,000). Of this total, \$13,737,000 (2016: \$9,227,000) represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate.

Reconciliation of unrecognized tax benefits:

As at December 31,	2017	2016
Unrecognized tax benefits, beginning of year	\$ 19,262	\$ 15,904
Increases - tax positions taken in prior period	4,426	846
Decreases - tax positions taken in prior period	(124)	-
Increases - tax positions taken in current period	2,346	2,785
Settlement and lapse of statute of limitations	-	(273)
Unrecognized tax benefits, end of year	<u>\$ 25,910</u>	<u>\$ 19,262</u>

Interest expense and penalties related to unrecognized tax benefits are recorded within the provision for income tax expense on the consolidated income statement. At December 31, 2017, the Company had accrued \$3,677,000 (2016: \$2,695,000) for interest and penalties.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

8. Income taxes (continued)

In the normal course of business, the Company is subject to audit by the Canadian federal and provincial taxing authorities, by the U.S. federal and various state taxing authorities and by the taxing authorities in various foreign jurisdictions. Tax years ranging from 2012 to 2017 remain subject to examination in Canada, the United States, Luxembourg, and the Netherlands.

9. Contingently redeemable non-controlling interest in Ritchie Bros. Financial Services

Until July 12, 2016, the Company held a 51% interest in RBFS, an entity that provides loan origination services to enable the Company's auction customers to obtain financing from third party lenders.

Until July 12, 2016, the Company and the non-controlling interest ("NCI") holders each held options pursuant to which the Company could acquire, or be required to acquire, the NCI holders' 49% interest in RBFS. These call and put options became exercisable on April 6, 2016, and the Company had the option to elect to pay the purchase price in either cash or shares of the Company, subject to the Company obtaining all relevant security exchange and regulatory consents and approvals. As a result of the existence of the put option, the NCI was accounted for as a contingently redeemable equity instrument (the "contingently redeemable NCI"). The NCI could be redeemed at a purchase price to be determined through an independent appraisal process conducted in accordance with the terms of the agreement, or at a negotiated price (the "redemption value").

On July 12, 2016, the Company completed its acquisition of the NCI. On that date, the Company acquired the NCI holders' 49% interest in RBFS for total consideration of 57,900,000 Canadian dollars (\$44,141,000). The purchase price consisted of cash consideration of 53,900,000 Canadian dollars (\$41,092,000) and 4,000,000 Canadian dollars (\$3,049,000) representing the acquisition date fair value of contingent consideration payable to the former shareholders of RBFS. The contingent payment is payable if RBFS achieves a specified annual revenue growth rate over a three-year post-acquisition period, and is calculated as a specified percentage of the accumulated earnings of RBFS after the three-year post-acquisition period. The maximum amount payable under the contingent payment arrangement is 10,000,000 Canadian dollars. The Company may pay an additional amount not exceeding 1,500,000 Canadian dollars over a three-year period based on the former NCI holders providing continued management services to RBFS.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

10. Earnings per share attributable to stockholders

Basic EPS attributable to stockholders was calculated by dividing the net income attributable to stockholders by the weighted average (“WA”) number of common shares outstanding. Diluted EPS attributable to stockholders was calculated by dividing the net income attributable to stockholders after giving effect to outstanding dilutive stock options and PSUs by the WA number of shares outstanding adjusted for all dilutive securities.

	Net income attributable to stockholders	WA number of shares	Per share amount
Year ended December 31, 2017			
Basic	75,027	107,044,348	\$ 0.70
Effect of dilutive securities:			
PSUs	(152)	353,880	-
Stock options	-	714,923	(0.01)
Diluted	<u>74,875</u>	<u>108,113,151</u>	<u>\$ 0.69</u>
Year ended December 31, 2016			
Basic	91,832	106,630,323	\$ 0.86
Effect of dilutive securities:			
PSUs	-	91,997	-
Stock options	-	735,474	(0.01)
Diluted	<u>91,832</u>	<u>107,457,794</u>	<u>\$ 0.85</u>
Year ended December 31, 2015			
Basic	136,214	107,075,845	\$ 1.27
Effect of dilutive securities:			
Stock options	-	356,629	-
Diluted	<u>136,214</u>	<u>107,432,474</u>	<u>\$ 1.27</u>

In respect of PSUs awarded under the sign-on grant PSUs and the senior executive and employee PSU plans (described in note 28), performance and market conditions, depending on their outcome at the end of the contingency period, can reduce the number of vested awards to nil or to a maximum of 200% of the number of outstanding PSUs. For the year ended December 31, 2017, nil PSUs to purchase common shares were outstanding but excluded from the calculation of diluted EPS attributable to stockholders as they were anti-dilutive (2016: 173,754; 2015: nil). For the year ended December 31, 2017, stock options to purchase 668,900 common shares were outstanding but excluded from the calculation of diluted EPS attributable to stockholders as they were anti-dilutive (2016: 752,197; 2015: 253,839).

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

11. Supplemental cash flow information

Year ended December 31,	2017	2016	2015
Trade and other receivables	(19,161)	6,419	12,757
Inventory	(8,557)	26,557	(17,635)
Advances against auction contracts	3,246	(1,012)	20,804
Prepaid expenses and deposits	1,178	(7,443)	(307)
Income taxes receivable	(6,067)	(10,686)	742
Auction proceeds payable	25,783	550	5,151
Trade and other payables	20,552	5,627	(7,654)
Income taxes payable	(3,986)	(8,657)	3,481
Share unit liabilities	(5,421)	4,503	5,397
Other	1,410	(5,176)	2,398
Net changes in operating assets and liabilities	\$ 8,977	\$ 10,682	\$ 25,134

Net capital spending, which consists of property, plant and equipment and intangible asset additions, net of proceeds on disposition of property, plant and equipment, was \$34,436,000 for the year ended December 31, 2017 (2016: \$29,785,000, 2015: \$14,152,000).

Year ended December 31,	2017	2016	2015
Interest paid, net of interest capitalized	\$ 23,360	\$ 5,792	\$ 4,989
Interest received	3,196	1,861	2,657
Net income taxes paid	28,281	54,037	34,661
Non-cash transactions:			
Non-cash purchase of property, plant and equipment under capital lease	8,820	3,376	943

As at December 31,	2017	2016	2015
Cash and cash equivalents	\$ 267,910	\$ 207,867	\$ 210,148
Restricted cash:			
Current	63,206	50,222	83,098
Non-current	-	500,000	-
Cash, cash equivalents, and restricted cash	\$ 331,116	\$ 758,089	\$ 293,246

On December 21, 2016, the Company completed the offering of \$500,000,000 aggregate principal amount of 5.375% senior unsecured notes due January 15, 2025 (note 25). Upon the closing of the offering, the gross proceeds from the offering were deposited in to an escrow account. The funds were released from escrow upon the closing of the acquisition of IronPlanet (note 32).

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

12. Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement or disclosure:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs for the asset or liability.

	Category	December 31, 2017		December 31, 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<i>Fair values disclosed, recurring:</i>					
Cash and cash equivalents	Level 1	\$ 267,910	\$ 267,910	\$ 207,867	\$ 207,867
Restricted cash	Level 1	63,206	63,206	550,222	550,222
Short-term debt (note 25)	Level 2	7,018	7,018	23,912	23,912
Long-term debt (note 25)					
Senior unsecured notes	Level 1	487,339	520,000	495,780	509,500
Revolving loans	Level 2	-	-	99,926	99,926
Delayed draw term loans	Level 2	325,553	329,687	-	-

The carrying value of the Company's cash and cash equivalents, restricted cash, trade and other receivables, advances against auction contracts, auction proceeds payable, trade and other payables, short term debt, and revolving loans approximate their fair values due to their short terms to maturity. The carrying value of the delayed draw term loan, before deduction of deferred debt issue costs, approximates its fair value as the interest rates on the loans were short-term in nature. The fair value of the senior unsecured notes is determined by reference to a quoted market price.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

13. Trade and other receivables

As at December 31,	2017	2016
Trade receivables	\$ 77,870	\$ 45,317
Consumption taxes receivable	13,592	5,575
Other receivables	643	2,087
	<u>\$ 92,105</u>	<u>\$ 52,979</u>

Trade receivables are generally secured by the equipment that they relate to as it is Company policy that equipment is not released until payment has been collected. Trade receivables are due for settlement within three to seven days of the date of sale, after which they are interest bearing. Other receivables are unsecured and non-interest bearing.

As at December 31, 2017, there were \$5,443,000 of impaired receivables that have been provided for in the balance sheet because they are over six months old, or specific situations where recovering the debt is considered unlikely (December 31, 2016: \$6,581,000).

Consumption taxes receivable are deemed fully recoverable unless disputed by the relevant tax authority. The other classes within trade and other receivables do not contain impaired assets.

14. Inventory

At each period end, inventory is reviewed to ensure that it is recorded at the lower of cost and net realizable value. During the year ended December 31, 2017, the Company recorded an inventory write-down of \$834,000 (2016: \$3,084,000; 2015: \$480,000).

Of inventory held at December 31, 2017, 99% is expected to be sold prior to the end of March 2018 with the remainder to be sold by the end of April 2018 (December 31, 2016: 93% sold by the end of March 2017 with the remainder sold by the end of June 2017).

15. Advances against auction contracts

Advances against auction contracts arise when the Company pays owners, in advance, a portion of the expected gross auction proceeds from the sale of the related assets at future auctions. The Company's policy is to limit the amount of advances to a percentage of the estimated gross auction proceeds from the sale of the related assets, and before advancing funds, require proof of owner's title to and equity in the assets, as well as receive delivery of the assets and title documents at a specified auction site, by a specified date and in a specified condition of repair.

Advances against auction contracts are generally secured by the assets to which they relate, as the Company requires owners to provide promissory notes and security instruments registering the Company as a charge against the asset. Advances against auction contracts are usually settled within two weeks of the date of sale, as they are netted against the associated auction proceeds payable to the owner.

16. Prepaid expenses and deposits

As at December 31,	2017	2016
Prepaid expenses	\$ 17,736	\$ 17,926
Refundable deposits	1,954	1,079
	<u>\$ 19,690</u>	<u>\$ 19,005</u>

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

17. Assets held for sale

Balance, December 31, 2015	\$	629
Reclassified from property, plant and equipment		237
Disposal		(242)
Site preparation costs		8
Balance, December 31, 2016	\$	632
Site preparation costs		25
Reclassified from property, plant and equipment		411
Disposal		(484)
Balance, December 31, 2017	\$	<u>584</u>

As at December 31, 2017, the Company's assets held for sale consisted of excess auction site acreage located in Denver and Kansas City, United States. Management made the strategic decision to sell this excess acreage to maximize the Company's return on invested capital. The properties have been actively marketed for sale, and management expects the sales to be completed within 12 months of December 31, 2017. This land belongs to the A&M reportable segment.

During the year ended December 31, 2017, the Company sold excess auction site acreage in Orlando, United States, and Truro, Canada, for net proceeds of \$1,084,000 resulting in net gains of \$602,000 (2016: \$493,000 gain related to the sale of property located in Denver, United States; 2015: \$8,485,000 gain related to the sale of property in Edmonton, Canada, and London, Canada).

18. Property, plant and equipment

As at December 31, 2017	Cost	Accumulated depreciation	Net book value
Land and improvements	\$ 379,546	\$ (68,706)	\$ 310,840
Buildings	267,334	(103,544)	163,790
Yard and automotive equipment	58,209	(38,126)	20,083
Computer software and equipment	69,718	(60,451)	9,267
Office equipment	25,430	(18,745)	6,685
Leasehold improvements	21,467	(15,090)	6,377
Assets under development	9,539	-	9,539
	<u>\$ 831,243</u>	<u>\$ (304,662)</u>	<u>\$ 526,581</u>

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

18. Property, plant and equipment (continued)

As at December 31, 2016	Cost	Accumulated depreciation	Net book value
Land and improvements	\$ 362,283	\$ (60,576)	\$ 301,707
Buildings	256,168	(91,323)	164,845
Yard and automotive equipment	55,352	(38,560)	16,792
Computer software and equipment	66,265	(57,624)	8,641
Office equipment	22,963	(16,706)	6,257
Leasehold improvements	20,199	(12,541)	7,658
Assets under development	9,130	-	9,130
	<u>\$ 792,360</u>	<u>\$ (277,330)</u>	<u>\$ 515,030</u>

During the year ended December 31, 2017, interest of \$110,000 (2016: \$95,000; 2015: \$86,000) was capitalized to the cost of assets under development. These interest costs relating to qualifying assets are capitalized at a weighted average rate of 2.97% (2016: 3.99%; 2015: 6.27%).

Additions during the year include \$8,820,000 (2016: \$3,376,000; 2015: \$943,000) of property, plant and equipment under capital leases.

19. Other non-current assets

As at December 31,	2017	2016
Tax receivable (note 8)	\$ 12,851	\$ 10,035
Deferred debt issue costs (note 25)	3,768	6,182
Other non-current assets	7,527	4,027
	<u>\$ 24,146</u>	<u>\$ 20,244</u>

20. Intangible assets

As at December 31, 2017	Cost	Accumulated amortization	Net book value
Trade names and trademarks	\$ 53,566	\$ (461)	\$ 53,105
Customer relationships	125,234	(9,487)	115,747
Software	110,201	(26,898)	83,303
Software under development	8,939	-	8,939
	<u>\$ 297,940</u>	<u>\$ (36,846)</u>	<u>\$ 261,094</u>

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

20. Intangible assets (continued)

As at December 31, 2016	Cost	Accumulated amortization	Net book value
Trade names and trademarks	\$ 5,585	\$ (50)	\$ 5,535
Customer relationships	25,618	(1,072)	24,546
Software	36,566	(13,116)	23,450
Software under development	18,773	-	18,773
	<u>\$ 86,542</u>	<u>\$ (14,238)</u>	<u>\$ 72,304</u>

During the year ended December 31, 2017, the Company recognized an impairment loss of \$8,911,000 due to the impairment of certain software and software under development (2016: the Company recorded an impairment loss on the Equipment One customer relationships of \$4,669,000; 2015: nil) (note 7).

At December 31, 2017, a net carrying amount of \$59,380,000 (December 31, 2016: \$22,665,000) included in intangible assets was not subject to amortization. During the year ended December 31, 2017, the cost of additions was reduced by \$888,000 for recognition of tax credits (2016: \$1,094,000; 2015: \$1,678,000)

During the year ended December 31, 2017, interest of \$281,000 (2016: \$356,000; 2015: \$772,000) was capitalized to the cost of software under development. These interest costs relating to qualifying assets are capitalized at a weighted average rate of 3.18% (2016: 4.91%; 2015: 6.39%).

During the year ended December 31, 2017, the weighted average amortization period for all classes of intangible assets was 7.9 years (2016: 8.2 years; 2015: 7.9 years).

As at December 31, 2017, estimated annual amortization expense for the next five years ended December 31 are as follows:

2018	\$ 31,463
2019	29,535
2020	24,141
2021	21,285
2022	19,024
	<u>\$ 125,448</u>

21. Goodwill

Balance, December 31, 2015	\$ 91,234
Additions (note 32)	30,794
Impairment loss (note 7)	(23,574)
Foreign exchange movement	(917)
Balance, December 31, 2016	<u>\$ 97,537</u>
Additions	568,936
Foreign exchange movement	4,449
Balance, December 31, 2017	<u>\$ 670,922</u>

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

22. Equity-accounted investments

The Company holds a 48% share interest in a group of companies detailed below (together, the Cura Classis entities), which have common ownership. The Cura Classis entities provide dedicated fleet management services in three jurisdictions to a common customer unrelated to the Company. The Company has determined the Cura Classis entities are variable interest entities and the Company is not the primary beneficiary, as it does not have the power to make any decisions that significantly affect the economic results of the Cura Classis entities. Accordingly, the Company accounts for its investments in the Cura Classis entities following the equity method.

A condensed summary of the Company's investments in and advances to equity-accounted investees are as follows (in thousands of United States dollars, except percentages):

	Ownership percentage	December 31, 2017	December 31, 2016
Cura Classis entities	48%	\$ 4,720	\$ 4,594
Other equity investments	32%	2,688	2,732
		<u>7,408</u>	<u>7,326</u>

As a result of the Company's investments, the Company is exposed to risks associated with the results of operations of the Cura Classis entities. The Company has no other business relationships with the Cura Classis entities. The Company's maximum risk of loss associated with these entities is the investment carrying amount.

23. Trade and other payables

As at December 31,	2017	2016
Trade payables	\$ 77,575	\$ 38,686
Accrued liabilities	55,332	44,775
Social security and sales taxes payable	14,693	14,759
Net consumption taxes payable	10,559	12,631
Share unit liabilities	5,407	10,422
Other payables	987	3,421
	<u>\$ 164,553</u>	<u>\$ 124,694</u>

24. Deferred compensation arrangement

The Company established a non-qualified deferred compensation arrangement (the "Deferred Compensation Arrangement") which is available to certain American employees. The Deferred Compensation Arrangement permits the deferral of up to 10% of base salary with the Company matching 100% of such contributions. Employees will receive the benefit, including a return on investment, on termination, retirement or other specified departures. The Company funds the deferred compensation obligations by investing in a non-qualified corporate owned life insurance policy ("COLI"), whereby funds are invested and the account balance fluctuates with the investment returns on those funds.

The expected benefit to be paid on termination of \$2,419,000 (2016: \$1,838,000) is presented in other non-current liabilities. The cash surrender value of the COLI asset of \$2,649,000 (2016: \$1,777,000) is classified within other non-current assets, with changes in the deferred compensation liability and COLI asset charged to SG&A expenses (note 6).

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

25. Debt

As at December 31,	Carrying amount	
	2017	2016
Short-term debt	\$ 7,018	\$ 23,912
Long-term debt:		
Revolving loans:		
Denominated in Canadian dollars, unsecured, bearing interest at a weighted average rate of 2.380%, due in monthly installments of interest only, with the committed, revolving credit facility available until October 2021	-	69,926
Denominated in United States dollars, unsecured, bearing interest at a weighted average rate of 2.075%, due in monthly installments of interest only, with the committed, revolving credit facility available until October 2021	-	30,000
Delayed draw term loan:		
Denominated in Canadian dollars, secured, bearing interest at a weighted average rate of 3.690%, due in monthly installments of interest only and quarterly installments of principal, with the committed credit facility, available until October 2021	185,143	-
Denominated in United States dollars, secured, bearing interest at a weighted average rate of 3.662%, due in monthly installments of interest only and quarterly installments of principal, with the committed credit facility, available until October 2021	144,544	-
Less: unamortized debt issue costs	(4,134)	-
Senior unsecured notes:		
Bearing interest at 5.375% due in semi-annual installments, with the full amount of principal due in January 2025	500,000	500,000
Less: unamortized debt issue costs	(12,661)	(4,220)
	<u>812,892</u>	<u>595,706</u>
Total debt	<u>\$ 819,910</u>	<u>\$ 619,618</u>
Long-term debt:		
Current portion	\$ 16,907	\$ -
Non-current portion	795,985	595,706
	<u>\$ 812,892</u>	<u>\$ 595,706</u>

On October 27, 2016, the Company entered into a credit agreement (the "Credit Agreement") with a syndicate of lenders, and Bank of America, N.A. ("BofA"), as administrative agent which provides the Company with:

- Multicurrency revolving facilities of up to \$675,000,000 (the "Multicurrency Facilities");
- A delayed draw term loan facility of up to \$325,000,000 (the "Delayed-Draw Facility"); and together with the Multicurrency Facilities, the ("Syndicated Facilities") and
- At the Company's election and subject to certain conditions, including receipt of related commitments, incremental term loan facilities and/or increases to the Multicurrency Facilities in an aggregate amount of up to \$50,000,000.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

25. Debt (continued)

The Company may use the proceeds from the Multicurrency Facilities for general corporate purposes. The amount available pursuant to the Delayed-Draw Facility was only available to finance the acquisition of IronPlanet and will not be available for other corporate purposes upon repayment of amounts borrowed under that facility. On May 31, 2017, the Company borrowed \$325,000,000 under the Delayed-Draw Facility to finance the acquisition of IronPlanet. The Delayed-Draw Facility amortizes in equal quarterly installments in an annual amount of 5% for the first two years and 10% in the third through fifth years, with the balance payable at maturity. Upon the closing of the acquisition the Syndicated Facilities became secured by the assets of the Company and certain of its subsidiaries in Canada and the United States. The Syndicated Facilities may become unsecured again, subject to the Company meeting specified credit rating or leverage ratio conditions.

The Company has incurred debt issue costs of \$9,682,000 in connection with the Syndicated Facilities, of which \$4,731,000 was allocated to the Multicurrency Facilities and \$4,951,000 was allocated to the Delayed-Draw Facility. As the former allocation is not related to specific draws, the costs have been capitalized as other non-current assets and are being amortized over the term of the Syndicated Facilities. For the later allocation, the costs have been capitalized and reduce the carrying value of the delayed draw term loans to which they relate. At December 31, 2017, the Company had unamortized deferred debt issue costs relating to the Multicurrency Facilities of \$3,768,000 (December 31, 2016: \$6,182,000 relating to the Syndicated Facilities) and unamortized deferred debt issue costs of \$4,134,000 relating to the delayed draw term loans.

On December 21, 2016, the Company completed the offering of \$500,000,000 aggregate principal amount of 5.375% senior unsecured notes due January 15, 2025 (the "Notes"). Interest on the Notes is payable semi-annually. The proceeds from the offering were held in escrow until completion of the acquisition of IronPlanet. On May 31, 2017, the funds were released from escrow to finance the acquisition of IronPlanet. The Notes are jointly and severally guaranteed on an unsecured basis, subject to certain exceptions, by each of the Company's subsidiaries that is a borrower or guarantees indebtedness under the Credit Agreement. IronPlanet and certain of its subsidiaries were added as additional guarantors in connection with the acquisition of IronPlanet.

The Company has incurred debt issue costs of \$13,945,000 in connection with the offering of the Notes. At December 31, 2017, the Company had unamortized deferred debt issue costs relating to the Notes of \$12,661,000 (December 31, 2016: \$4,220,000)

Short-term debt at December 31, 2017 is comprised of drawings in different currencies on the Company's committed revolving credit facilities and have a weighted average interest rate of 2.7% (December 31, 2016: 2.2%).

As at December 31, 2017, principal repayments for the remaining period to the contractual maturity dates are as follows:

	Face value
2018	\$ 16,907
2019	25,360
2020	33,814
2021	253,606
2022	-
Thereafter	500,000
	<u>\$ 829,687</u>

As at December 31, 2017, the Company had available committed revolving credit facilities aggregating \$646,991,000 of which \$637,806,000 is available until October 27, 2021.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

26. Other non-current liabilities

As at December 31,	2017	2016
Tax payable (note 8)	\$ 25,958	\$ 19,262
Finance lease obligation - non-current	7,875	3,284
Share unit liabilities	2,865	4,243
Other non-current liabilities	10,075	11,299
	<u>\$ 46,773</u>	<u>\$ 38,088</u>

27. Equity and dividends

Share capital

Preferred stock

Unlimited number of senior preferred shares, without par value, issuable in series.
Unlimited number of junior preferred shares, without par value, issuable in series.
All issued shares are fully paid. No preferred shares have been issued.

Share repurchase

In the year ended December 31, 2017, there were no common shares repurchased. In 2016 1,460,000 common shares were repurchased at a weighted average ("WA") share price of \$25.16 per common share. The repurchased shares were cancelled on March 15, 2016.

Dividends

Declared and paid

The Company declared and paid the following dividends during the years ended December 31, 2017, 2016, and 2015:

	Declaration date	Dividend per share	Record date	Total dividends	Payment date
Year ended December 31, 2017:					
Fourth quarter 2016	January 23, 2017	\$ 0.1700	February 10, 2017	\$ 18,160	March 3, 2017
First quarter 2017	May 4, 2017	0.1700	May 23, 2017	18,188	June 13, 2017
Second quarter 2017	August 4, 2017	0.1700	August 25, 2017	18,210	September 15, 2017
Third quarter 2017	November 8, 2017	0.1700	November 29, 2017	18,227	December 20, 2017
Year ended December 31, 2016:					
Fourth quarter 2015	January 15, 2016	\$ 0.1600	February 12, 2016	\$ 17,154	March 4, 2016
First quarter 2016	May 9, 2016	0.1600	May 24, 2016	17,022	June 14, 2016
Second quarter 2016	August 5, 2016	0.1700	September 2, 2016	18,127	September 23, 2016
Third quarter 2016	November 8, 2016	0.1700	November 28, 2016	18,156	December 19, 2016
Year ended December 31, 2015:					
Fourth quarter 2014	January 12, 2015	\$ 0.1400	February 13, 2015	\$ 15,089	March 6, 2015
First quarter 2015	May 7, 2015	0.1400	May 29, 2015	14,955	June 19, 2015
Second quarter 2015	August 6, 2015	0.1600	September 4, 2015	17,147	September 25, 2015
Third quarter 2015	November 5, 2015	0.1600	November 27, 2015	17,149	December 18, 2015

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

27. Equity and dividends (continued)

Declared and undistributed

In addition to the above dividends, since the end of the year the Directors have recommended the payment of a final dividend of \$0.17 cents per common share, accumulating to a total dividend of \$18,246,000. The aggregate amount of the proposed final dividend is expected to be paid out of retained earnings on March 9, 2018 to stockholders of record on February 16, 2018. This dividend payable has not been recognized as a liability in the financial statements. The payment of this dividend will not have any tax consequence for the Company.

28. Share-based payments

Share-based payments consist of the following compensation costs:

Year ended December 31,	2017	2016	2015
Stock option compensation expense:			
SG&A expenses	\$ 8,948	\$ 5,507	\$ 4,001
Acquisition-related costs	4,752	-	-
Share unit expense:			
Equity-classified share units	3,529	1,981	-
Liability-classified share units	670	10,512	5,673
Employee share purchase plan - employer contributions	1,813	1,597	1,332
	<u>\$ 19,712</u>	<u>\$ 19,597</u>	<u>\$ 11,006</u>

Share unit expense and employer contributions to the employee share purchase plan are recognized in SG&A expenses.

Stock option plans

The Company has three stock option plans that provide for the award of stock options to selected employees, directors and officers of the Company: a) Amended and Restated Stock Option Plan, b) IronPlanet 1999 Stock Plan, and c) IronPlanet 2015 Stock Plan. The IronPlanet 1999 Stock Plan and IronPlanet 2015 Stock Plan were assumed by the Company as part of the acquisition of IronPlanet (note 32).

Stock options are granted with an exercise price equal to the fair market value of the Company's common shares at the grant date, with vesting periods ranging from immediate to five years and terms not exceeding 10 years. At December 31, 2017, there were 3,402,481 (December 31, 2016: 4,202,631) shares authorized and available for grants of options under the stock option plans.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

28. Share-based payments (continued)

Stock option plans (continued)

Stock option activity for the years ended December 31, 2017, 2016, and 2015 is presented below:

	Common shares under option	WA exercise price	WA remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, December 31, 2014	3,897,791	22.09		
Granted	880,706	25.50		
Exercised	(1,412,535)	21.11		\$ 9,426
Forfeited	(89,884)	23.10		
Outstanding, December 31, 2015	3,276,078	23.40		
Granted	1,268,101	24.34		
Exercised	(1,081,531)	22.50		\$ 9,380
Forfeited	(95,934)	24.32		
Outstanding, December 31, 2016	3,366,714	\$ 24.02		
Granted	970,947	31.07		
Assumed in acquisition (note 32)	737,358	14.26		
Exercised	(444,571)	22.35		\$ 3,762
Forfeited	(170,704)	19.38		
Outstanding, December 31, 2017	4,459,744	\$ 24.29	7.5	\$ 17,649
Exercisable, December 31, 2017	1,918,220	\$ 23.02	6.2	\$ 10,894

The options outstanding at December 31, 2017 expire on dates ranging to November 16, 2027. The WA share price of options exercised during the year ended December 31, 2017 was \$30.81 (2016: \$31.18; 2015: \$27.78). The WA grant date fair value of options granted during the year ended December 31, 2017 was \$7.22 per option (2016: \$4.72; 2015: \$5.39).

The compensation expense arising from option grants is amortized over the relevant vesting periods of the underlying options. As at December 31, 2017, the unrecognized stock-based compensation cost related to the non-vested stock options was \$6,610,000, which is expected to be recognized over a weighted average period of 2.2 years. Cash received from stock-based award exercises for the year ended December 31, 2017 was \$9,935,000 (2016: \$24,338,000; 2015: \$29,816,000). The actual tax benefit realized for the tax deductions from option exercise of the share based payment arrangements totaled \$1,017,000 for the year ended December 31, 2017 (2016: \$1,464,000; 2015: \$1,150,000).

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

28. Share-based payments (continued)**Stock option plans (continued)**

The fair value of the stock option grants was estimated on the date of the grant using the Black-Scholes option pricing model. The significant assumptions used to estimate the fair value of stock options granted during the years ended December 31, 2017, 2016, and 2015 are presented in the following table on a weighted average basis:

Year ended December 31,	2017	2016	2015
Risk free interest rate	2.0%	1.2%	1.8%
Expected dividend yield	2.15%	2.66%	2.18%
Expected lives of the stock options	5 years	5 years	5 years
Expected volatility	27.8%	26.5%	26.4%

The fair value of the assumed stock options is estimated on the IronPlanet acquisition date using the Black-Scholes option pricing model. The weighted average fair value of the assumed options was \$16.93. The significant assumptions used to estimate the fair value of these assumed stock options are presented in the following table on a weighted average basis:

Year ended December 31,	2017
Risk free interest rate	0.8%
Expected dividend yield	2.19%
Expected lives of the stock options	0.4 years
Expected volatility	32.1%

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

28. Share-based payments (continued)

Share unit plans

Share unit activity for the years ended December 31, 2017, 2016, and 2015 is presented below:

	Equity-classified awards				Liability-classified awards					
	PSUs		RSUs		PSUs (1)		RSUs		DSUs	
	Number	WA grant date fair value	Number	WA grant date fair value	Number	WA grant date fair value	Number	WA grant date fair value	Number	WA grant date fair value
Outstanding, December 31, 2014	-	\$ -	-	\$ -	238,573	\$ 23.38	403,587	\$ 22.32	42,289	\$ 22.33
Granted	-	-	-	-	218,699	24.57	20,528	26.38	29,072	26.07
Vested and settled	-	-	-	-	(6,870)	22.22	(28,887)	22.53	(13,365)	22.34
Forfeited	-	-	-	-	(28,817)	23.23	(62,274)	21.56	-	-
Outstanding, December 31, 2015	-	\$ -	-	\$ -	421,585	\$ 24.03	332,954	\$ 22.70	57,996	\$ 24.21
Granted	7,714	31.40	-	-	257,117	23.32	4,543	29.33	17,371	29.41
Transferred to (from) equity awards on modification	257,934	27.34	-	-	(257,934)	23.86	-	-	-	-
Vested and settled	-	-	-	-	(68,683)	23.08	(162,306)	22.23	(1,847)	25.28
Forfeited	(21,680)	27.43	-	-	(40,756)	22.75	(15,182)	22.68	-	-
Outstanding, December 31, 2016	243,968	\$ 27.48	-	\$ -	311,329	\$ 23.96	160,009	\$ 23.37	73,520	\$ 25.41
Granted	136,073	30.28	125,152	26.93	98,775	31.21	878	32.30	19,967	29.67
Transferred to (from) equity awards on modification	81,533	24.47	-	-	(81,533)	24.66	-	-	-	-
Vested and settled	(27,326)	26.82	-	-	(49,873)	23.64	(156,221)	23.33	-	-
Forfeited	-	-	-	-	(19,457)	26.39	-	-	-	-
Outstanding, December 31, 2017	434,248	\$ 27.83	125,152	\$ 26.93	259,241	\$ 26.38	4,666	\$ 26.42	93,487	\$ 26.32

(1) Liability-classified PSUs include PSUs awarded under the employee PSU plan and the previous 2013 PSU plan, in place prior to 2015, that are cash-settled and not subject to market vesting conditions.

The total market value of share units vested and released during the year ended December 31, 2017 was \$6,521,000 (2016: \$4,463,000; 2015: \$1,253,000). As at December 31, 2017, the Company had a total share unit liability of \$8,274,000 (December 31, 2016: \$14,665,000) in respect of share units under the PSU, RSU, and DSU plans described herein. The compensation expense arising from share unit grants is amortized over the relevant vesting periods of the underlying units.

Senior executive and employee PSU plans

The Company grants PSUs under a senior executive PSU plan and an employee PSU plan (the "PSU Plans"). Under the PSU Plans, the number of PSUs that vest is conditional upon specified market, service, and performance vesting conditions being met.

The market vesting condition is based on the relative performance of the Company's share price in comparison to the performance of a pre-determined portfolio of other companies' share prices. The non-market vesting conditions are based on the achievement of specific performance measures and can result in participants earning between 0% and 200% of the target number of PSUs granted.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

28. Share-based payments (continued)

Share unit plans (continued)

Senior executive and employee PSU plans (continued)

Prior to May 2, 2016, the Company was only able to settle the PSU awards under the PSU Plans in cash, and as such, both new plans were classified as liability awards. On May 2, 2016 (the “modification date”), the shareholders approved amendments to the PSU Plans, allowing the Company to choose whether to settle the awards in cash or in shares. With respect to settling in shares, the Company has the option to either (i) arrange for the purchase shares on the open market on the employee’s behalf based on the cash value that otherwise would be delivered, or (ii) to issue a number of shares equal to the number of units that vest.

Under the first option, the shareholders authorized an unlimited number of open-market purchases of common shares for settlement of the PSUs. Under the second option, the shareholders authorized 1,000,000 shares to be issued for settlement of the PSUs.

On the modification date, the employee PSU plan remained classified as a liability and the senior executive PSU plan awards were reclassified to equity awards, based on the Company’s settlement intentions for each plan which remain unchanged at December 31, 2017. The fair value of the senior executive awards outstanding on the modification date was \$27.34. The share unit liability, representing the portion of the fair value attributable to past service, was \$2,105,000, which was reclassified to equity on that date. No incremental compensation was recognized as a result of the modification. Unrecognized compensation expense based on the fair value of the senior executive PSU awards on the modification date will be amortized over the remaining service period.

Because the PSUs awarded under the PSU Plans are contingently redeemable in cash in the event of death of the participant, on the modification date, the Company reclassified \$2,175,000 to temporary equity, representing the portion of the contingent redemption amount of the senior executive PSU awards as if redeemable on May 2, 2016, to the extent attributable to prior service.

PSUs awarded under the PSU Plans are subject to market vesting conditions. The fair value of the liability-classified PSUs awarded under the employee PSU plan is estimated on the date of grant and at each reporting date using a binomial model.

The significant assumptions used to estimate the fair value of the liability-classified PSUs awarded under the employee PSU plan during 2017 and 2016 are presented in the following table on a weighted average basis:

Year ended December 31,	2017	2016	2015
Risk free interest rate	1.5%	1.2%	1.3%
Expected dividend yield	2.01%	2.40%	2.17%
Expected lives of the PSUs	3 years	3 years	3 years
Expected volatility	28.9%	29.7%	24.4%
Average expected volatility of comparable companies	33.4%	37.0%	32.8%

Risk free interest rate is estimated using Bloomberg’s United States dollar Swap Rate as of the valuation date. Expected dividend yield assumes a continuation of the most recent quarterly dividend payments. Given the limited historical information available for the PSUs, the Company estimated the expected life of PSUs with reference to the expected life of stock options. Stock options have five-year expected lives, whereas PSUs vest after three years. As such, the Company estimates the expected life of the PSUs to equal the three-year vesting period. Expected volatility is estimated from Bloomberg’s volatility surface of the common shares as of the valuation date. The unrecognized share unit expense related to liability-classified PSUs was \$3,163,000, which is expected to be recognized over a weighted average period of 1.6 years.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

28. Share-based payments (continued)

Share unit plans (continued)

Senior executive and employee PSU plans (continued)

The fair value of the equity-classified PSUs awarded under the senior executive PSU plan is estimated on modification date and on the date of grant using a binomial model. The significant assumptions used to estimate the fair value of the equity-classified PSUs awarded under the senior executive PSU plan during 2017 and 2016 are presented in the following table on a weighted average basis:

Year ended December 31,	2017	2016
Risk free interest rate	1.4%	1.2%
Expected dividend yield	1.92%	2.50%
Expected lives of the PSUs	3 years	3 years
Expected volatility	28.2%	29.9%
Average expected volatility of comparable companies	37.0%	37.0%

As at December 31, 2017, the unrecognized share unit expense related to equity-classified PSUs was \$5,280,000, which is expected to be recognized over a weighted average period of 1.7 years.

Sign-on grant PSUs

On August 11, 2014, the Company awarded 102,375 one-time sign-on grant PSUs (the "SOG PSUs"). The SOG PSUs were cash-settled and subject to market vesting conditions related to the Company's share performance over rolling two, three, four, and five-year periods.

Prior to May 1, 2017, the Company was only able to settle the SOG PSU award in cash, and as such, the plan was classified as a liability award. On May 1, 2017 (the "SOG modification date"), the shareholders approved amendments to the SOG PSU grant, allowing the Company to choose whether to settle the award in cash or in shares. With respect to settling in shares, the new settlement options allow the Company to issue a number of shares equal to the number of units that vest. The shareholders authorized 150,000 shares to be issued for settlement of the PSUs.

On the SOG modification date, the SOG PSU award was reclassified to equity award, based on the Company's settlement intentions. The weighted average fair value of the SOG PSU award outstanding on the modification date was \$24.47. The share unit liability, representing the portion of the fair value attributable to past service, was \$1,421,000, which was reclassified to equity on that date. No incremental compensation was recognized as a result of the modification. Unrecognized compensation expense based on the fair value of the SOG PSU award on the modification date will be amortized over the remaining service period.

Because the PSUs awarded under the new plans are contingently redeemable in cash in the event of death of the participant, on the SOG modification date, the Company reclassified \$1,803,000 to temporary equity, representing the portion of the contingent redemption amount of the SOG PSUs as if redeemable on May 1, 2017, to the extent attributable to prior service.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

28. Share-based payments (continued)

Share unit plans (continued)

Sign-on grant PSUs (continued)

The fair value of the equity-classified SOG PSUs is estimated on SOG modification date and on the date of grant using a binomial model. The significant assumptions used to estimate the fair value of the equity-classified PSUs for the year ended December 31, 2017 are presented in the following table on a weighted average basis:

Year ended December 31,	2017
Risk free interest rate	1.6%
Expected dividend yield	2.54%
Expected lives of the PSU	4 years
Expected volatility	28.6%

RSUs and DSUs

The Company has RSU and DSU plans that were cash-settled and not subject to market vesting conditions.

Prior to November 8, 2017, the Company was only able to settle the RSU awards in cash, and as such, the RSUs were classified as liability awards, which are fair valued on grant date and at each reporting date using the 20-day volume weighted average price of the Company's common shares listed on the New York Stock Exchange. On November 8, 2017 (the "RSU modification date"), the Board of Directors approved amendments to the RSU plans, allowing the Company to choose whether to settle the awards in cash or in shares for new RSUs granted after the RSU modification date. With respect to settling in shares, the Company has the option to either (i) arrange for the purchase shares on the open market on the employee's behalf based on the cash value that otherwise would be delivered, or (ii) to issue a number of shares equal to the number of units that vest, net of any applicable withholding, if any. The Company has registered 300,000 shares to be issued for settlement of the RSUs which will be proposed for shareholder approval at the next annual general meeting. As at December 31, 2017, the unrecognized share unit expense related to equity-classified RSUs was \$2,980,000, which is expected to be recognized over a weighted average period of 2.9 years, and the unrecognized share unit expense related to liability-classified RSUs was \$37,000, which is expected to be recognized over a weighted average period of 0.8 years.

Fair values of DSUs are estimated on grant date and at each reporting date using the 20-day volume weighted average price of the Company's common shares listed on the New York Stock Exchange. DSUs are granted under the DSU plan to members of the Board of Directors. There is no unrecognized share unit expense related to liability-classified DSUs as they vest immediately and are expensed upon grant.

Employee share purchase plan

The Company has an employee share purchase plan that allows all employees that have completed one year of service to contribute funds to purchase common shares at the current market value at the time of share purchase. Employees may contribute up to 4% of their salary. The Company will match between 50% and 100% of the employee's contributions, depending on the employee's length of service with the Company.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

29. Commitments

Commitments for expenditures

As at December 31, 2017, the Company had committed to, but not yet incurred, \$1,612,000 in capital expenditures for property, plant and equipment and intangible assets (December 31, 2016: \$3,197,000).

Operating lease commitments – the Company as lessee

The Company has entered into commercial leases for various auction sites and offices located in North America, Central America, Europe, the Middle East and Asia. The majority of these leases are non-cancellable. The Company also has further operating leases for computer equipment, certain motor vehicles and small office equipment where it is not in the best interest of the Company to purchase these assets.

The majority of the Company's operating leases have a fixed term with a remaining life between one month and 20 years with renewal options included in the contracts. The leases have varying contract terms, escalation clauses and renewal rights. There are no restrictions placed upon the lessee by entering into these leases, other than restrictions on use of property, sub-letting and alterations. In certain leases there are options to purchase; if the intention to take this option changes subsequent to the commencement of the lease, the Company re-assesses the classification of the lease as operating.

The future aggregate minimum lease payments under non-cancellable operating leases, excluding reimbursed costs to the lessor, are as follows:

2018	\$	14,763
2019		12,309
2020		9,604
2021		7,422
2022		5,838
Thereafter		47,818
	\$	<u>97,754</u>

As at December 31, 2017, the total future minimum sublease payments expected to be received under non-cancellable subleases is \$1,936,000 (2016: \$577,000; 2015 \$1,077,000). The lease expenditure charged to earnings during the year ended December 31, 2017 was \$21,956,000 (2016: \$20,075,000; 2015: \$17,367,000).

Capital lease commitments – the Company as lessee

The Company has entered into capital lease arrangements for computer and yard equipment. The majority of the leases have a fixed term with a remaining life of one month to four years with renewal options included in the contracts. In certain of these leases, the Company has the option to purchase the leased asset at fair market value or a stated residual value at the end of the lease term.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

29. Commitments (continued)

Capital lease commitments – the Company as lessee (continued)

As at December 31, 2017, the net carrying amount of computer and yard equipment under capital leases is \$10,692,000 (December 31, 2016: \$3,968,000), and is included in the total property, plant and equipment as disclosed on the consolidated balance sheets.

The future aggregate minimum lease payments under non-cancellable finance leases are as follows:

2018	\$	3,463
2019		3,371
2020		2,407
2021		1,469
2022		595
Thereafter		-
	<u>\$</u>	<u>11,305</u>

Assets recorded under capital leases are as follows:

As at December 31, 2017	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 8,699	\$ (3,604)	\$ 5,095
Yard and auto equipment	6,493	(896)	5,597
	<u>\$ 15,192</u>	<u>\$ (4,500)</u>	<u>\$ 10,692</u>

As at December 31, 2016	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 8,511	\$ (4,990)	\$ 3,521
Yard and auto equipment	589	(142)	447
	<u>\$ 9,100</u>	<u>\$ (5,132)</u>	<u>\$ 3,968</u>

30. Contingencies

Legal and other claims

The Company is subject to legal and other claims that arise in the ordinary course of its business. Management does not believe that the results of these claims will have a material effect on the Company's consolidated balance sheet or consolidated income statement.

Guarantee contracts

In the normal course of business, the Company will in certain situations guarantee to a consignor a minimum level of proceeds in connection with the sale at auction of that consignor's equipment.

At December 31, 2017 there were \$12,319,000 of government assets guaranteed under contract, of which 100% is expected to be sold prior to the end of December 31, 2018 (December 31, 2016: \$nil).

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

30. Contingencies (continued)

At December 31, 2017 there were \$11,756,000 of industrial assets guaranteed under contract, of which 100% is expected to be sold prior to the end of April 2018 (December 31, 2016: \$3,813,000 of which 100% was expected to be sold prior to the end of March 2017).

At December 31, 2017 there were \$6,873,000 of agricultural assets guaranteed under contract, of which 100% is expected to be sold prior to the end of April 2018 (December 31, 2016: \$11,415,000 of which 100% was expected to be sold prior to the end of July 2017).

The outstanding guarantee amounts are undiscounted and before estimated proceeds from sale at auction.

31. Selected quarterly financial data (unaudited)

The following is a summary of selected quarterly financial information (unaudited):

2017	Revenues	Operating income	Net income	Attributable to stockholders		
				Net income	Earnings per share	
					Basic	Diluted
First quarter	\$ 124,499	\$ 23,597	\$ 10,433	\$ 10,377	\$ 0.10	\$ 0.10
Second quarter	166,186	26,888	17,713	17,635	0.16	0.16
Third quarter	141,047	16,931	10,323	10,261	0.10	0.09
Fourth quarter	178,785	40,038	36,837	36,754	0.34	0.34

2016	Revenues	Operating income	Net income (loss)	Attributable to stockholders		
				Net income (loss)	Earnings (loss) per share	
					Basic	Diluted
First quarter	\$ 131,945	\$ 39,174	\$ 29,994	\$ 29,406	\$ 0.28	\$ 0.27
Second quarter	158,805	53,635	40,591	39,710	0.37	0.37
Third quarter	128,876	2,285	(5,000)	(5,137)	(0.05)	(0.05)
Fourth quarter	146,769	40,628	27,927	27,853	0.26	0.26

2015	Revenues	Operating income	Net income	Attributable to stockholders		
				Net income	Earnings per share	
					Basic	Diluted
First quarter	\$ 115,618	\$ 33,019	\$ 24,110	\$ 23,777	\$ 0.22	\$ 0.22
Second quarter	155,477	62,795	45,846	45,083	0.42	0.42
Third quarter	109,318	28,602	21,247	20,825	0.19	0.19
Fourth quarter	135,462	50,424	47,372	46,529	0.43	0.43

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

32. Business combinations

(a) IronPlanet acquisition

On May 31, 2017 (the “IronPlanet Acquisition Date”), the Company acquired 100% of the issued and outstanding shares of IronPlanet for a total fair value consideration of \$776,474,000. On the acquisition date, cash consideration of \$772,706,000 was paid to the former shareholders, vested option holders and warrant holders of IronPlanet. In addition to the cash consideration, non-cash consideration of \$2,330,000 was issued attributable to the assumption of outstanding IronPlanet options, \$1,771,000 was paid in cash related to customary closing adjustments, and \$333,000 was related to settlement of intercompany payable transactions.

A summary of the net cash flows and purchase price are detailed below:

	May 31, 2017
Cash consideration paid to former equity holders	\$ 723,810
Settlement of IronPlanet's debt	36,313
Settlement of IronPlanet's transaction costs	12,583
Cash consideration paid on closing	772,706
Cash consideration paid related to closing adjustments	1,771
Less: cash and cash equivalents acquired	(95,626)
Less: restricted cash acquired	(3,000)
Acquisition of IronPlanet, net of cash acquired	<u>\$ 675,851</u>
Cash consideration paid on closing	\$ 772,706
Replacement stock option awards attributable to pre-combination services	4,926
Stock option compensation expense from accelerated vesting of awards attributable to post-combination services	(2,596)
Cash consideration paid relating to closing adjustments	1,771
Settlement of pre-existing intercompany balances	(333)
Purchase price	<u>\$ 776,474</u>

As part of the acquisition of IronPlanet, the Company assumed IronPlanet's existing 1999 Stock Plan and 2015 Stock Plan, under the same terms and conditions. The fair value of IronPlanet's stock options at the date of acquisition was determined using the Black-Scholes pricing model. Of the total fair value, \$51,678,000 has been attributed as pre-combination service and included as part of the total acquisition consideration. The post-combination attribution of \$10,154,000 is made up of two components, 1) \$4,752,000 related to acceleration of options upon closing of the transaction, which was immediately recognized in acquisition-related costs, and 2) \$5,402,000 related to the remaining unvested options, which will be recognized as compensation expense over the vesting period.

IronPlanet is a leading online marketplace for selling and buying used equipment and other durable assets and an innovative participant in the multi-billion dollar used equipment market. The acquisition expands the breadth and depth of equipment disposition and management solutions the Company can offer its customers.

The acquisition was accounted for in accordance with ASC 805, *Business Combinations*. The assets acquired and liabilities assumed were recorded at their estimated fair values at the IronPlanet Acquisition Date. Goodwill of \$568,561,000 was calculated as the fair value of consideration over the estimated fair value of the net assets acquired.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

32. Business combinations (continued)

(a) IronPlanet acquisition (continued)

IronPlanet provisional purchase price allocation

	May 31, 2017
Purchase price	\$ 776,474
Assets acquired:	
Cash and cash equivalents	\$ 95,626
Restricted cash	3,000
Trade and other receivables	13,021
Inventory	600
Advances against auction contracts	4,623
Prepaid expenses and deposits	1,645
Income taxes receivable	55
Property, plant and equipment	2,381
Other non-current assets	2,551
Deferred tax assets	1,497
Intangible assets ~	188,000
Liabilities assumed:	
Auction proceeds payable	63,616
Trade and other payables	14,511
Deferred tax liabilities	26,959
Fair value of identifiable net assets acquired	207,913
Goodwill acquired on acquisition	\$ 568,561

~ Intangible assets consist of indefinite-lived trade names and trademarks, customer relationships with estimated useful lives of ranging from six to 13 years, and a technology platform with an estimated useful life of 7 years.

The amounts included in the IronPlanet provisional purchase price allocation are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the IronPlanet Acquisition Date. The final determination of the fair values of certain assets and liabilities will be completed within the measurement period of up to one year from the IronPlanet Acquisition Date, and is dependent upon finalization of income tax liabilities. Adjustments to the preliminary values during the measurement period will be recorded in the operating results of the reporting period in which the adjustments are determined. Changes to the amounts recorded as assets and liabilities will result in a corresponding adjustment to goodwill.

During the period from May 31, 2017 to December 31, 2017, the Company made a revision to certain preliminary estimated fair values of assets acquired and liabilities assumed. A measurement period adjustment between inventory and prepaid expenses was made to revise the classification of certain assets. In addition, a measurement period adjustment for income tax assets and liabilities was made based on the Company's revised analysis of the income tax liability expected to be settled or realized, which resulted in an increase to goodwill in the amount of \$1,151,000.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

32. Business combinations (continued)

(a) IronPlanet acquisition (continued)

Goodwill

The main drivers generating goodwill are the anticipated synergies from (1) the Company's auction expertise and transactional capabilities to IronPlanet's existing customer base, (2) IronPlanet providing existing technology to the Company's current customer base, and (3) future growth from international expansion and new Caterpillar dealers. Other factors generating goodwill include the acquisition of IronPlanet's assembled work force and their associated technical expertise.

Contributed revenue and net income

The results of IronPlanet's operations are included in these consolidated financial statements from the IronPlanet Acquisition Date. IronPlanet contributed revenues of \$65,641,000 and net income of \$12,413,000 to the Company's revenues and net income during the year ended December 31, 2017. IronPlanet's contributed net income includes charges related to amortization of intangible assets acquired.

The following table includes the unaudited condensed pro forma financial information that presents the combined results of operations as if the transactions relating to the IronPlanet acquisition and the financing required to fund the acquisition had occurred on January 1, 2016. These transactions include adjustments in each applicable period presented for recurring charges related to amortization of intangible assets acquired, interest expense related to the acquisition financing, changes in fair value of convertible preferred stock warrant liability, certain stock option compensation expenses, and taxes, as well as adjustments to the diluted weighted average number of shares outstanding. In addition, these transactions also include pre-tax adjustments related to non-recurring charges totalling \$55,239,000 incurred between the third quarter of 2016 and the second quarter of 2017 that were presented as if the transactions occurred on January 1, 2016. The non-recurring transactions include certain acquisition-related and financing costs, stock option compensation expenses, and severance costs, together with the related income tax recovery.

The unaudited pro forma condensed combined financial information does not purport to represent what the Company's results of operations or financial condition would have been had the IronPlanet acquisition and related transactions occurred on the dates indicated, and it does not purport to project the Company's results of operations or financial condition for any future period or as of any future date.

Year ended December 31,	2017	2016
Revenue	\$ 659,861	\$ 676,234
Net income	94,244	24,179
Basic earnings per share	0.88	0.21
Diluted earnings per share	0.87	0.21

The unaudited pro forma net loss for the year ended December 31, 2016 includes an impairment loss on the EquipmentOne reporting unit goodwill of \$23,574,000 and an impairment loss on the EquipmentOne reporting unit customer relationships of \$4,669,000.

Transactions recognized separately from the acquisition of assets and assumptions of liabilities

Acquisition-related costs

Expenses totalling \$34,653,000 for legal fees, stock option compensation expense, and other acquisition-related costs are included in the consolidated income statement for the year ended December 31, 2017 (2016: \$8,202,000).

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

32. Business combinations (continued)

(b) Kramer acquisition

On November 15, 2016 (the “Kramer Acquisition Date”), the Company purchased the assets of Kramer Auctions Ltd. for cash consideration of Canadian dollar 15,300,000 (\$11,361,000) comprised of Canadian dollar 15,000,000 (\$11,138,000) paid at acquisition date and Canadian dollar 300,000 (\$223,000) deferred payments over three years. In addition to cash consideration, consideration of up to Canadian dollar 2,500,000 (\$1,856,000) is contingent on Kramer achieving certain operating performance targets over the three-year period following acquisition. Kramer is a leading Canadian agricultural auction company with strong customer relationships in central Canada. This acquisition is expected to strengthen Ritchie Bros.’ penetration of Canada’s agricultural sector and add key talent to our Canadian Agricultural sales and operations team.

The acquisition was accounted for in accordance with ASC 805 *Business Combinations*. The assets acquired were recorded at their estimated fair values at the Kramer Acquisition Date. Goodwill of \$6,822,000 was calculated as the fair value of consideration over the estimated fair value of the net assets acquired.

Kramer purchase price allocation

	November 15, 2016
Purchase price	\$ 11,138
Deferred purchase note consideration	223
Fair value of contingent consideration	538
Total fair value at Kramer Acquisition Date	<u>11,899</u>
Assets acquired:	
Property, plant and equipment	\$ 399
Intangible assets ~	4,678
Fair value of identifiable net assets acquired	<u>5,077</u>
Goodwill acquired on acquisition	<u>\$ 6,822</u>

~ Consists of customer relationships and trade names with estimated useful lives of 10 and three years, respectively.

Assets acquired

At the date of acquisition, the Company determined the fair value of the assets acquired using appropriate valuation techniques.

Goodwill

Kramer is a highly complementary business that will broaden the Company’s base in the agriculture sector in Canada, one of the main drivers generating goodwill.

Contingent consideration

At the date of acquisition, the maximum contingent consideration of Canadian dollar 2,500,000 (\$1,856,000) was fair valued at Canadian dollar 725,000 (\$538,000). The contingent consideration is based on the cumulative revenue growth during a three-year period ending November 15, 2019. The liability is remeasured on each reporting date at its estimated fair value, which is determined using actual results up to the reporting date and forecasted results over the remainder of the performance period. Changes in the fair value are recognized in other income or expense in the consolidated income statement, as applicable. At December 31, 2017, the Company did not recognize a liability as the estimated fair value of the contingent consideration was nil (December 31, 2016: Canadian dollar 725,000 (\$538,000)). In the year ending December 31, 2017 the Company recognized other income of \$620,000 (2016: nil) associated with the change in fair value.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

32. Business combinations (continued)

(b) Kramer acquisition (continued)

Transactions recognized separately from the acquisition of assets and assumptions of liabilities

Acquisition-related costs

Expenses totalling \$507,000 for continuing employment costs and other acquisition-related costs are included in the consolidated income statement for the year ended December 31, 2017 (2016: \$192,000).

Employee compensation in exchange for continued services

The Company may pay an additional amount not exceeding Canadian dollar 1,000,000 (\$743,000) over a three-year period based on the continuing employment of four key leaders of Kramer with the Company. The Company paid Canadian dollar 333,000 (\$261,000) in this regard during the year ended December 31, 2017 (2016: nil).

(c) Petrowsky acquisition

On August 1, 2016 (the "Petrowsky Acquisition Date"), the Company acquired the assets of Petrowsky for cash consideration of \$6,250,000. An additional \$750,000 was paid for the retention of certain key employees. In addition to cash consideration, consideration of up to \$3,000,000 is contingent on Petrowsky achieving certain revenue growth targets over the three-year period following acquisition. Based in North Franklin, Connecticut, Petrowsky caters largely to equipment sellers in the construction and transportation industries. Petrowsky also serves customers selling assets in the underground utility, waste recycling, marine, and commercial real estate industries. The business operates one permanent auction site, in North Franklin, which will continue to hold auctions, and also specializes in off-site auctions held on the land of the consignor.

The acquisition was accounted for in accordance with ASC 805 *Business Combinations*. The assets acquired were recorded at their estimated fair values at the Petrowsky Acquisition Date. Goodwill of \$4,308,000 was calculated as the fair value of consideration over the estimated fair value of the net assets acquired.

Petrowsky purchase price allocation

	August 1, 2016
Purchase price	\$ 6,250
Fair value of contingent consideration	1,433
Total fair value at Petrowsky Acquisition Date	<u>7,683</u>
Assets acquired:	
Property, plant and equipment	\$ 441
Intangible assets ~	2,934
Fair value of identifiable net assets acquired	3,375
Goodwill acquired on acquisition	<u>\$ 4,308</u>

~Consists of customer relationships with estimated useful lives of 10 years.

Assets acquired and liabilities assumed

At the date of the acquisition, the carrying amounts of the assets and liabilities acquired approximated their fair values, except customer relationships, whose fair value was determined using appropriate valuation techniques.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

32. Business combinations (continued)

(c) Petrowsky acquisition (continued)

Goodwill

Petrowsky is a highly complementary business that will broaden the Company's base of equipment sellers, one of the main drivers generating goodwill. Petrowsky's sellers are primarily in the construction and transportation industries, which are also well aligned with the Company's sector focus.

Contingent consideration

As part of the acquisition, contingent consideration of up to \$3,000,000 is payable to Petrowsky if certain revenue growth targets are achieved. The contingent consideration is based on the cumulative revenue growth during a three-year period ending July 31, 2019. The liability is remeasured on each reporting date at its estimated fair value, which is determined using actual results up to the reporting date and forecasted results over the remainder of the performance period. Changes in the fair value are recognized in other income or expense in the consolidated income statement, as applicable. In the year ending December 31, 2017, the Company recognized other income of \$1,457,000 (2016: nil) associated with the change in fair value. At December 31, 2017, the Company did not recognize a liability as the estimated fair value of the contingent consideration was nil (December 31, 2016: \$1,433,000).

Transactions recognized separately from the acquisition of assets and assumptions of liabilities

Acquisition-related costs

Expenses totalling \$653,000 for continuing employment and other acquisition-related costs are included in the consolidated income statement for the year ended December 31, 2017 (2016: \$604,000).

Transactions recognized separately from the acquisition of assets and assumptions of liabilities (continued)

Employee compensation in exchange for continued services

As noted above, \$750,000 was paid on the Petrowsky Acquisition Date in exchange for the continuing services of certain key employees. In addition, the Company may pay an amount not exceeding \$1,000,000 over a three-year period, payable in equal annual installments, on the anniversary date of the acquisition based on the founder of Petrowsky's continuing employment with the Company. The Company paid \$333,000 in this regard during the year ended December 31, 2017 (2016: nil).

(d) Mascus acquisition

On February 19, 2016 (the "Mascus Acquisition Date"), the Company acquired 100% of the issued and outstanding shares of Mascus for cash consideration of €26,553,000 (\$29,580,000). In addition to cash consideration, consideration of up to €3,198,000 (\$3,563,000), of which €1,215,000 (\$1,302,000) has been paid, is contingent on Mascus achieving certain operating performance targets over the three-year period following acquisition. Mascus is based in Amsterdam and provides an online equipment listing service for used heavy machines and trucks. The acquisition expands the breadth and depth of equipment disposition and management solutions the Company can offer its customers.

The acquisition was accounted for in accordance with ASC 805, *Business Combinations*. The assets acquired and liabilities assumed were recorded at their estimated fair values at the Mascus Acquisition Date. Goodwill of \$19,664,000 was calculated as the fair value of consideration over the estimated fair value of the net assets acquired.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

32. Business combinations (continued)

(d) Mascus acquisition (continued)

Mascus purchase price allocation

	February 19, 2016
Purchase price	\$ 29,580
Fair value of contingent consideration	3,431
Non-controlling interests ⁽¹⁾	596
Total fair value at Mascus Acquisition Date	<u>33,607</u>
Fair value of assets acquired:	
Cash and cash equivalents	\$ 1,457
Trade and other receivables	1,290
Prepaid expenses	528
Property, plant and equipment	104
Intangible assets ⁽²⁾	14,817
Fair value of liabilities assumed:	
Trade and other payables	1,533
Other non-current liabilities	37
Deferred tax liabilities	2,683
Fair value of identifiable net assets acquired	<u>13,943</u>
Goodwill acquired on acquisition	<u>\$ 19,664</u>

(1) The Company acquired 100% of Mascus and within the Mascus group of entities there were two subsidiaries that were not wholly-owned, one domiciled in the United States and one domiciled in Denmark. As such, the Company acquired non-controlling interests. The fair value of each non-controlling interest was determined using an income approach based on cash flows of the respective entities that were attributable to the non-controlling interest. On May 27, 2016, Ritchie Bros. Holdings (America) Inc. acquired the remaining issued and outstanding shares of the Mascus subsidiary domiciled in the United States for cash consideration of \$226,000.

(2) Intangible assets consist of customer relationships with estimated useful lives of 17 years, indefinite-lived trade names, and software assets with estimated useful lives of five years.

Goodwill

The main drivers generating goodwill are the anticipated synergies from (1) the Company's core auction expertise and transactional capabilities to Mascus' existing customer base, and (2) Mascus' providing existing technology to the Company's current customer base. Other factors generating goodwill include the acquisition of Mascus' assembled work force and their associated technical expertise.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of United States dollars, except where noted)

32. Business combinations (continued)

(d) Mascus acquisition (continued)

Contingent consideration

At the date of acquisition, the maximum contingent consideration of €3,198,000 (\$3,563,000) was fair valued at €3,080,000 (\$3,431,000). The consideration is contingent upon the achievement of certain operating performance targets during the three-year period following acquisition and is due in three instalments, each occurring after the end of the respective 12-month performance period. During the year ended December 31, 2017 after having achieved certain first performance period targets, the Company made the first instalment payment of €1,215,000 (\$1,302,000). The remaining liability is remeasured on each reporting date at its estimated fair value, which is determined using actual results up to the reporting date and forecasted results over the remainder of the performance period. Changes in the fair value are recognized in other income or expense in the consolidated income statement, as applicable. At December 31, 2017 the estimated fair value of the contingent consideration was €1,879,000 (\$2,255,000) (December 31, 2016: €3,080,000 (\$3,431,000)). During the year ended December 31, 2017 the Company recognized €28,000 (\$33,000) in other income associated with the change in fair value (2016: nil).

Transactions recognized separately from the acquisition of assets and assumptions of liabilities

Acquisition-related costs

Expenses totalling \$552,000 for continuing employments costs and other acquisition-related costs are included in the consolidated income statement for the year ended December 31, 2017 (2016: \$1,720,000).

Employee compensation in exchange for continued services

The Company may pay additional amounts not exceeding €1,625,000 (\$1,849,000) over a three-year period ending February 19, 2019 based on key employees' continuing employment with Mascus. The Company paid €393,000 (\$419,000) in this regard during the year ended December 31, 2017 (2016: nil).