

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

The Board of Directors and Shareholders of **Ritchie Bros. Auctioneers Incorporated**

We have audited the accompanying consolidated balance sheets of **Ritchie Bros. Auctioneers Incorporated** (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Ritchie Bros. Auctioneers Incorporated** at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), **Ritchie Bros. Auctioneers Incorporated's** internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2017 expressed an unqualified opinion thereon.

Vancouver, Canada
February 21, 2017

/s/Ernst & Young LLP
Chartered Professional Accountants

Ritchie Bros.

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Consolidated Income Statements

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

Year ended December 31,	2016	2015	2014
Revenues (note 5)	\$ 566,395	\$ 515,875	\$ 481,097
Costs of services, excluding depreciation and amortization (note 6)	66,062	56,026	57,884
	500,333	459,849	423,213
Selling, general and administrative expenses (note 6)	283,529	254,389	248,220
Acquisition-related costs (note 6)	11,829	601	-
Depreciation and amortization expenses (note 6)	40,861	42,032	44,536
Gain on disposition of property, plant and equipment	(1,282)	(9,691)	(3,512)
Impairment loss (note 7)	28,243	-	8,084
Foreign exchange loss (gain)	1,431	(2,322)	(2,042)
Operating income	135,722	174,840	127,927
Other income (expense):			
Interest income	1,863	2,660	2,222
Interest expense	(5,564)	(4,962)	(5,277)
Equity income (note 21)	1,028	916	458
Debt extinguishment costs (note 24)	(6,787)	-	-
Other, net	4,232	2,982	3,708
	(5,228)	1,596	1,111
Income before income taxes	130,494	176,436	129,038
Income tax expense (recovery) (note 8):			
Current	40,341	42,420	33,321
Deferred	(3,359)	(4,559)	3,154
	36,982	37,861	36,475
Net income	\$ 93,512	\$ 138,575	\$ 92,563
Net income attributable to:			
Stockholders	\$ 91,832	\$ 136,214	\$ 90,981
Non-controlling interests	1,680	2,361	1,582
	\$ 93,512	\$ 138,575	\$ 92,563
Earnings per share attributable to stockholders (note 10):			
Basic	\$ 0.86	\$ 1.27	\$ 0.85
Diluted	\$ 0.85	\$ 1.27	\$ 0.85
Weighted average number of shares outstanding (note 10):			
Basic	106,630,323	107,075,845	107,268,425
Diluted	107,457,794	107,432,474	107,654,828

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Expressed in thousands of United States dollars)

Year ended December 31,	2016	2015	2014
Net income	\$ 93,512	\$ 138,575	\$ 92,563
Other comprehensive loss, net of income tax:			
Foreign currency translation adjustment	(9,847)	(40,776)	(35,796)
Total comprehensive income	<u>\$ 83,665</u>	<u>\$ 97,799</u>	<u>\$ 56,767</u>
Total comprehensive income attributable to:			
Stockholders	81,839	95,831	55,295
Non-controlling interests	1,826	1,968	1,472
	<u>\$ 83,665</u>	<u>\$ 97,799</u>	<u>\$ 56,767</u>

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

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

December 31,	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 207,867	\$ 210,148
Restricted cash	50,222	83,098
Trade and other receivables (note 13)	52,979	59,412
Inventory (note 14)	28,491	58,463
Advances against auction contracts	5,621	4,797
Prepaid expenses and deposits (note 16)	19,005	11,057
Assets held for sale (note 17)	632	629
Income taxes receivable	13,181	2,495
	<u>377,998</u>	<u>430,099</u>
Property, plant and equipment (note 18)	515,030	528,591
Equity-accounted investments (note 21)	7,326	6,487
Restricted cash (note 24)	500,000	-
Deferred debt issue costs (note 24)	6,182	-
Other non-current assets	4,027	3,369
Intangible assets (note 19)	72,304	46,973
Goodwill (note 20)	97,537	91,234
Deferred tax assets (note 8)	19,129	13,362
	<u>\$ 1,599,533</u>	<u>\$ 1,120,115</u>
Liabilities and Equity		
Current liabilities:		
Auction proceeds payable	\$ 98,873	\$ 101,215
Trade and other payables (note 22)	124,694	120,042
Income taxes payable	5,355	13,011
Short-term debt (note 24)	23,912	12,350
Current portion of long-term debt (note 24)	-	43,348
	<u>252,834</u>	<u>289,966</u>
Long-term debt (note 24)	595,706	54,567
Share unit liabilities	4,243	5,633
Other non-current liabilities	14,583	6,735
Deferred tax liabilities (note 8)	36,387	31,070
	<u>903,753</u>	<u>387,971</u>
Commitments (note 27)		
Contingencies (note 28)		
Contingently redeemable:		
Non-controlling interest (note 9)	-	24,785
Performance share units (note 26)	3,950	-
Stockholders' equity (note 25):		
Share capital:		
Common stock; no par value, unlimited shares authorized, issued and outstanding shares: 106,822,001 (December 31, 2015: 107,200,470)	125,474	131,530
Additional paid-in capital	27,638	27,728
Retained earnings	601,071	601,051
Accumulated other comprehensive loss	(67,126)	(57,133)
Stockholders' equity	<u>687,057</u>	<u>703,176</u>
Non-controlling interest	4,773	4,183
	<u>691,830</u>	<u>707,359</u>
	<u>\$ 1,599,533</u>	<u>\$ 1,120,115</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						Contingently redeemable		
	Common stock		Additional paid-In capital ("APIC")	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interest ("NCI")	Total equity	Non-controlling interest ("NCI")	Performance share units ("PSUs")
	Number of shares	Amount							
Balance, December 31, 2013	107,024,783	\$ 126,350	\$ 30,238	\$ 510,571	18,936	\$ -	686,095	\$ 8,303	
Net income	-	-	-	90,981	-	-	90,981	1,582	
Change in value of contingently redeemable non-controlling interest	-	-	-	(7,512)	-	-	(7,512)	7,512	
Other comprehensive loss	-	-	-	-	(35,686)	-	(35,686)	(110)	
	-	-	-	83,469	(35,686)	-	47,783	8,984	
Stock option exercises	663,152	14,907	(2,786)	-	-	-	12,121	-	
Stock option tax adjustment	-	-	152	-	-	-	152	-	
Stock option compensation expense (note 26)	-	-	3,710	-	-	-	3,710	-	
Cash dividends paid (note 25)	-	-	-	(57,929)	-	-	(57,929)	-	
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 26)	-	-	4,001	-	-	-	4,001	-	-
NCI acquired in a business combination (note 30)	-	-	-	-	-	4,119	4,119	-	-
Shares repurchased (note 25)	(1,900,000)	(47,489)	-	-	-	-	(47,489)	-	-
Cash dividends paid (note 25)	-	-	-	(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 26)	-	-	5,507	-	-	-	5,507	-	-
Modification of PSUs (note 26)	-	-	-	(70)	-	-	(70)	-	2,175
Equity-classified PSU expense (note 26)	-	-	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 30)	-	-	-	-	-	596	596	-	-
Acquisition of NCI	-	-	-	-	-	(226)	(226)	(44,141)	-
Shares repurchased (note 25)	(1,460,000)	(36,726)	-	-	-	-	(36,726)	-	-
Cash dividends paid (note 25)	-	-	-	(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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

Year ended December 31,	2016	2015	2014
Cash provided by (used in):			
Operating activities:			
Net income	\$ 93,512	\$ 138,575	\$ 92,563
Adjustments for items not affecting cash:			
Depreciation and amortization expenses (note 6)	40,861	42,032	44,536
Inventory write down (note 14)	3,084	480	2,177
Impairment loss (note 7)	28,243	-	8,084
Stock option compensation expense (note 26)	5,507	4,001	3,710
Equity-classified PSU expense (note 26)	1,981	-	-
Deferred income tax recovery	(3,359)	(4,559)	3,154
Equity income less dividends received	(1,028)	(916)	(458)
Unrealized foreign exchange loss	1,947	1,403	562
Change in fair value of earn-outs	(2,044)	-	-
Gain on disposition of property, plant and equipment	(1,282)	(9,691)	(3,512)
Other, net	(546)	-	-
Net changes in operating assets and liabilities (note 11)	10,682	25,134	(1,797)
Net cash provided by operating activities	177,558	196,459	149,019
Investing activities:			
Acquisition of Mascus (note 30)	(28,123)	-	-
Acquisition of Xcira (note 30)	-	(12,107)	-
Acquisition of Petrowsky (note 30)	(6,250)	-	-
Acquisition of contingently redeemable NCI (note 9)	(41,092)	-	-
Acquisition of NCI (note 30)	(226)	-	-
Acquisition of Kramer (note 30)	(11,138)	-	-
Acquisition of equity investments	-	(3,000)	-
Property, plant and equipment additions	(18,918)	(22,055)	(24,990)
Intangible asset additions	(17,558)	(8,764)	(13,935)
Proceeds on disposition of property, plant and equipment	6,691	16,667	9,330
Other, net	(248)	(89)	(529)
Net cash used in investing activities	(116,862)	(29,348)	(30,124)
Financing activities:			
Issuances of share capital	24,338	29,816	12,121
Share repurchase (note 25)	(36,726)	(47,489)	-
Dividends paid to stockholders (note 25)	(70,459)	(64,340)	(57,929)
Dividends paid to contingently redeemable NCI	(3,436)	(1,340)	-
Proceeds from short-term debt	67,584	11,223	45,751
Repayment of short-term debt	(57,516)	(6,558)	(41,066)
Proceeds from long-term debt	647,091	-	-
Repayment of long-term debt	(148,158)	-	(58,409)
Debt issue costs (note 24)	(10,644)	-	-
Debt extinguishment costs (note 24)	(6,787)	-	-
Repayment of finance lease obligations	(1,655)	(2,073)	(1,953)
Other, net	511	72	(148)
Net cash provided by (used in) financing activities	404,143	(80,689)	(101,633)
Effect of changes in foreign currency rates on cash and cash equivalents	4	(26,265)	(18,534)
Cash, cash equivalents, and restricted cash:			
Increase (decrease)	464,843	60,157	(1,272)
Beginning of period	293,246	233,089	234,361
Cash, cash equivalents, and restricted cash, end of period (note 11)	\$ 758,089	\$ 293,246	\$ 233,089

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”) sell industrial equipment and other assets for the construction, agricultural, transportation, energy, mining, forestry, material handling, marine and real estate industries at its unreserved auctions and online marketplaces. 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 earnings 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 at our auctions through the Company acting as an agent for consignors of equipment and other assets, as well as commissions on online marketplace sales, and
- fees earned in the process of conducting auctions, fees from value-added services, 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 auction 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 our auctions represent the percentage earned by the Company on the gross auction proceeds from equipment and other assets sold at auction. The majority of commissions are earned as a pre-negotiated fixed rate of the gross selling price. Other commissions from sales at our auctions are earned from underwritten commission contracts, when the Company guarantees a certain level of proceeds to a consignor or purchases inventory to be sold at auction. Commissions also include those earned on online marketplace sales.

Commissions from sales at auction

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.

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 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 commission revenue. 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 that 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. 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 28).

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 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.

Fees

Fees earned in the process of conducting our auctions include administrative, documentation, and advertising fees. Fees from value-added services include financing and technology service fees. Fees also include amounts paid by buyers (a "buyer's premium") on online marketplace sales. Fees are recognized in the period in which the service is provided to the customer.

(d) 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 a stock option compensation plan that provides 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 performance share unit ("PSU") plan that provides for the award of PSUs to selected senior executives of the Company. The Company has the option to settle executive PSU 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 a straight-line basis, with recognition of a corresponding increase to APIC 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 together with any related compensation recognized for the award. Dividend equivalents on the senior executive plan PSUs are recognized as a reduction to retained earnings over the service period.

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)

(d) Share-based payments (continued)

Equity-classified share-based payments (continued)

PSUs awarded under the senior executive and employee PSU plans (described in note 26) 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 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.

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 26. 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 fair value and forfeiture estimate revisions, if any, are recognized in earnings such that the cumulative expense reflects the revised estimates, 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 non-current liabilities.

The 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 fair value of the share unit grants is calculated on the valuation date using the 20-day volume weighted average share price of the Company's common shares listed on the New York Stock Exchange. The fair value of the awards is expensed over the respective vesting period of the individual awards with recognition of a corresponding liability, with changes in fair value after vesting being recognized through compensation expense. Compensation expense reflects estimates the number of instruments expected to vest.

The impacts of fair value and forfeiture estimate revisions, if any, are recognized in earnings such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the settlement liability. Short-term cash-settled share-based liabilities are presented in trade and other payables while long-term settlements are presented in non-current liabilities.

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)

(d) Share-based payments (continued)

Employee share purchase plan

The Company matches employees' contributions to the share purchase plan, which is described in more detail in note 26. The Company's contributions are expensed as share-based compensation.

(e) 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.

(f) 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.

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 \$1,967,000 for 2016 (2015: \$19,636,000; 2014: \$18,273,000).

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)

(g) 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.

(h) Restricted cash

In certain jurisdictions, local laws require the Company to hold cash in segregated accounts, which are used to settle auction proceeds payable resulting from auctions 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. Non-current restricted cash consists of funds held in escrow pursuant to the offering of senior unsecured notes (note 24), which are only available to the Company if and when the Company receives approval to acquire IronPlanet Holdings, Inc. ("IronPlanet") and whose use is restricted to the funding of the IronPlanet acquisition (note 28).

(i) Trade and other receivables

Trade receivables principally include amounts due from customers as a result of 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.

(j) Inventories

Inventory is recorded at cost and is represented by goods held for auction. Each inventory contract has been valued at the lower of cost and net realizable value.

(k) 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.

(l) 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.

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)**(l) Property, plant and equipment (continued)**

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	Basis	Rate / term
Land improvements	Declining balance	10%
Buildings	Straight-line	15 - 30 years
Yard equipment	Declining balance	20 - 30%
Automotive equipment	Declining balance	30%
Computer software and equipment	Straight-line	3 - 5 years
Office equipment	Declining balance	20%
Leasehold improvements	Straight-line	Lesser of lease term or economic life

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.

(m) 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.

(n) Intangible assets

Intangible assets have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses, except trade names and trademarks as they have indefinite useful lives. 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.

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)

(n) Intangible assets (continued)

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	Basis	Rate / term
Customer relationships	Straight-line	10 - 20 years
Software assets	Straight-line	3 - 5 years

Amortization of intangible assets under capital leases has been recorded in amortization expense.

(o) Impairment of long-lived assets

Long-lived assets, comprised of property, plant and equipment and intangibles 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.

(p) Goodwill

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to assets acquired and liabilities assumed in a business combination. Goodwill is allocated to either the Core Auction, the EquipmentOne, or the Mascus reporting unit.

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 first step of the impairment test for goodwill is 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 test indicates it is not more likely than not that the reporting unit's carrying amount is less than its fair value, a quantitative assessment is not required.

Where a quantitative assessment is required the next step is to compare the fair value of the reporting unit to the reporting unit's carrying value. The fair value calculated in the impairment test is determined using a discounted cash flow or another model involving assumptions that are based upon what we believe a hypothetical marketplace participant would use in estimating fair value on the measurement date. In developing these assumptions, we compare the resulting estimated enterprise value to our observable market enterprise value. If the fair value of the reporting unit is lower than the reporting unit's carrying value an impairment loss is recognized for any amount by which the carrying value of goodwill exceeds its implied 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) 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.

(r) 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 earnings before income taxes as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 (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.

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 our provision for income taxes. The Company continually assesses the likelihood and amount of potential adjustments and adjust 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.

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)

(s) 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.

(t) Earnings per share

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

(u) 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.

(v) Advertising costs

Advertising costs are expensed as incurred. Advertising expense is included in direct expenses and selling, general and administrative expense on the accompanying consolidated statements of operations.

(w) Early adoption of new accounting pronouncements

- (i) In November 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*, which requires that the change in the total of cash, cash equivalents, and restricted cash during a reporting period be explained in the statement of cash flows (“SCF”). Therefore, restricted cash is included with cash and cash equivalents when reconciling the total beginning and end of period amounts shown on the face of the SCF. ASU 2016-18 is effective 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. If adopted during an interim period, any adjustments are reflected as of the beginning of the fiscal year that includes the interim period. The amendments are applied using a retrospective transition method to each period presented.

The treatment of restricted cash in the SCF under ASU 2016-18 is similar to the treatment under IFRS, which was the basis of preparation of the Company’s reporting basis prior to its recent transition to US GAAP. As such, management believes this presentation is more familiar to readers of the Company’s financial statements, making the financial statements easier to understand. Also, the Company’s restricted cash balance, and therefore, its SCF performance metrics, are subject to a significant level of fluctuation because the restricted cash balance varies according to both the timing and location of auctions in any given period. Management believes that ASU 2016-18 will help reduce these fluctuations, providing more useful information to financial statement users. For all these reasons, the Company early adopted ASU 2016-18 in the fourth quarter of 2016, applying the amendments on a retrospective transition method basis. The effect of this retrospective application of ASU 2016-18 has been disclosed in note 11.

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)

(x) New and amended accounting standards

- (ii) Effective January 1, 2016, the Company adopted ASU 2014-12, *Compensation – Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, which requires that a performance target that (1) affects vesting of an award, and (2) could be achieved after the requisite service period of the employee be treated as a performance condition. The adoption of this standard did not have an impact on the Company's consolidated financial statements.
- (iii) Effective January 1, 2016, the Company adopted ASU 2015-02, *Consolidation (Topic 810), Amendments to the Consolidation Analysis*, which changes the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs"), and eliminates the presumption that a general partner should consolidate a limited partnership that is a voting interest entity. The new guidance also alters the analysis for determining when fees paid to a decision maker or service provider represent a variable interest in a VIE and how interests of related parties affect the primary beneficiary determination. The adoption of this standard did not have an impact on the Company's consolidated financial statements.
- (iv) Effective January 1, 2016, the Company adopted ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, which provides clarity around a customer's accounting for fees paid in a cloud computing arrangement. The amendments in ASU 2015-05 add guidance to assist customers in determining whether a cloud computing arrangement includes a software license. Software license elements of cloud computing arrangements are accounted for consistent with the acquisition of other intangible asset licenses. Where there is no software license element, the cloud computing arrangement is accounted for as a service contract. The standard was applied prospectively and did not have an impact on the Company's consolidated financial statements.
- (v) Effective January 1, 2016, the Company adopted Accounting Standards Update ("ASU") 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments*, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adoption of this standard did not have an impact on the Company's consolidated financial statements with respect to the acquisition of Xcira (note 30(d)) as no adjustments to provisional amounts were identified during the measurement period. During the period from February 19, 2016 to December 31, 2016, the Company recognized working capital adjustments related to the Mascus acquisition (note 30(a)), which resulted in a net \$343,000 increase in goodwill.

(y) 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.

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)

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

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.

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 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 in the process of identifying the appropriate changes to our 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. The team is also working closely with management and the Audit Committee to determine the most appropriate method of adoption of ASU 2014-09, which has not yet been selected primarily due to the uncertainty over if and when the Company will receive approval to acquire IronPlanet. Due to the complexity of applying the amendments retrospectively in the event the acquisition is approved, the Company is evaluating recently issued guidance on practical expedients as part of the adoption method decision.

The team has been closely monitoring FASB activity related to ASU 2014-09 in order to conclude on specific interpretative issues. In early 2016, the team's progress 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. The team continues to assess the potential effect that these amendments are expected to have on the accounting for inventory commission and ancillary service contracts, which are currently accounted for on a net as an agent basis within commission and fee revenues, respectively.

Notes to the Consolidated Financial Statements

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

2. Significant accounting policies (continued)

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

(ii) In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*, the first of three standards related to financial instrument accounting. The amendments of ASU 2016-01 require equity method investments (except for equity-method accounted investments and those resulting in consolidation of the investee) to be measured at fair value with changes recognized in net income. For equity investments that do not have readily determinable fair values, the entity may elect to measure the investment at cost less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The amendments also:

- Simplify the impairment assessment of equity investments that do not have readily determinable fair values, by requiring a qualitative assessment to identify impairment. The entity is only required to measure the investment at fair value if the qualitative assessment indicates that impairment exists.
- Eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.
- Require the exit price notion to be used when measuring the fair value of financial instruments for disclosure purposes.
- Require separate presentation of financial assets and liabilities by measurement category and form of financial asset (i.e. securities or loans & receivables) on the balance sheet or the accompanying notes to the financial statements.

ASU 2016-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is only permitted for the provisions under ASU 2016-01 related to the recognition of changes in fair value of financial liabilities. The Company is evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

(iii) 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. 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. 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)

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

- (iv) In March 2016, the FASB issued ASU 2016-06, *Derivatives and Hedging (Topic 815), Contingent Put and Call Options on Debt Instruments*. The amendments in ASU 2016-06, 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. As a consequence, 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. ASU 2016-06 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The amendments are applied using a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. The Company is evaluating the new guidance to determine the impact it will have on its consolidated financial statements.
- (v) 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 Company is evaluating the new guidance to determine the impact it will have on its consolidated financial statements.
- (vi) In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718)*, which makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. Specifically, ASU 2016-09 requires an entity to recognize share-based payment award income tax effects in the income statement when the awards vest or are settled, and as a result, the requirement for entities to track APIC pools is eliminated. In addition, the amendments allow entities to make a policy election to either estimate forfeiture or recognize forfeitures as they occur. ASC 2016-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the new guidance to determine the impact it will have on its consolidated financial statements.
- (vii) In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, which clarifies the following two aspects of ASU 2014-09 (Topic 606): identifying performance obligations and the licensing implementation guidance. ASC 2016-10 affects the guidance in ASU 2014-09, and so has the same effective date and transition requirements. ASU 2016-10 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. 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)

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

(viii) In May 2016, the FASB issued ASU 2016-12, *Narrow Scope Improvements and Practical Expedients*, which makes narrow scope improvements and practical expedients to the following aspects of ASU 2014-09 (Topic 606):

- Assessing one specific collectability criterion and accounting for contracts that do not meet certain criteria
- Presentation for sales taxes and other similar taxes collected from customers
- Non-cash consideration
- Contract modification at transition
- Completed contracts at transition
- Technical correction

ASC 2016-10 affects the guidance in ASU 2014-09, and so has the same effective date and transition requirements. ASU 2016-10 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

(ix) In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements*, 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.

(x) In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory*, which requires the recognition of current and deferred income taxes resulting from intra-entity transfers of assets other than inventory when the transfer occurs. ASU 2016-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issue. The amendments are applied using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

(xi) In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The amendments are applied using a retrospective transition method to each period presented, unless impracticable to do so, in which case they are applied prospectively as of the earliest date practicable. 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)

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. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstance and such changes are reflected in the assumptions when they occur. Significant estimates include the estimated useful lives of long-lived assets, as well as valuation of goodwill, underwritten commission contracts, contingently redeemable non-controlling interest and share-based compensation.

4. Segmented information

The Company's principal business activity is the sale of industrial equipment and other assets at auctions. The Company's operations are comprised of one reportable segment and other business activities that are not reportable as follows:

- Core Auction segment, a network of auction locations that conduct live, unreserved auctions with both on-site and online bidding; and
- Other includes the results of the Company's EquipmentOne and Mascus online services, which are not material to the Company's consolidated financial statements. On February 19, 2016, the Company acquired Mascus and updated its segment reporting such that the results of EquipmentOne and Mascus (subsequent to acquisition) are reported as "Other."

The accounting policies of the segments are similar to those described in the significant accounting policies in note 2. The Chief Operating Decision Maker evaluates each segment's performance based on earnings (loss) from operations, which is calculated as revenues less costs of services, selling, general and administrative ("SG&A") expenses, depreciation and amortization expenses, and impairment loss.

The significant non-cash items included in segment earnings (loss) from operations are depreciation and amortization expenses and impairment loss.

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, 2016	Core Auction	Other	Consolidated
Revenues	\$ 542,423	\$ 23,972	\$ 566,395
Costs of services, excluding depreciation and amortization	(63,566)	(2,496)	(66,062)
SG&A expenses	(265,860)	(17,669)	(283,529)
Depreciation and amortization expenses	(37,496)	(3,365)	(40,861)
Impairment loss	-	(28,243)	(28,243)
	\$ 175,501	\$ (27,801)	\$ 147,700
Acquisition-related costs			(11,829)
Gain on disposition of property, plant and equipment			1,282
Foreign exchange loss			(1,431)
Operating income			\$ 135,722
Equity income			1,028
Other and income tax expenses			(43,238)
Net income			\$ 93,512

Year ended December 31, 2015	Core Auction	Other	Consolidated
Revenues	\$ 500,764	\$ 15,111	\$ 515,875
Costs of services, excluding depreciation and amortization	(56,026)	-	(56,026)
SG&A expenses	(240,673)	(13,716)	(254,389)
Depreciation and amortization expenses	(39,016)	(3,016)	(42,032)
	\$ 165,049	\$ (1,621)	\$ 163,428
Acquisition-related costs			(601)
Gain on disposition of property, plant and equipment			9,691
Foreign exchange gain			2,322
Operating income			\$ 174,840
Equity income			916
Other and income tax expenses			(37,181)
Net income			\$ 138,575

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, 2014	Core Auction	Other	Consolidated
Revenues	\$ 467,919	\$ 13,178	\$ 481,097
Cost of services, excluding depreciation and amortization	(57,884)	-	(57,884)
SG&A expenses	(233,438)	(14,782)	(248,220)
Depreciation and amortization expenses	(40,872)	(3,664)	(44,536)
Impairment loss	(8,084)	-	(8,084)
	\$ 127,641	\$ (5,268)	\$ 122,373
Gain on disposition of property, plant and equipment			3,512
Foreign exchange gain			2,042
Operating income			\$ 127,927
Equity income			458
Other and income tax expenses			(35,822)
Net income			\$ 92,563

The Chief Operating Decision Maker does not evaluate the performance of its operating segments based on segment assets and liabilities. The Company does not classify liabilities on a segmented basis.

The Company's geographic information as determined by the revenue and location of assets is as follows:

	United States	Canada	Europe	Other	Consolidated
Revenues for the year ended:					
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
December 31, 2014	223,770	154,392	58,782	44,153	481,097
	United States	Canada	Europe	Other	Consolidated
Long-lived assets:					
December 31, 2016	\$ 282,103	\$ 108,693	\$ 74,491	\$ 49,743	\$ 515,030
December 31, 2015	289,126	106,924	79,578	52,963	528,591

Revenue information is based on the locations of the auction and the assets at the time of sale.

Notes to the Consolidated Financial Statements

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

5. Revenues

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

Year ended December 31,	2016	2015	2014
Commissions	\$ 424,128	\$ 405,308	\$ 379,340
Fees	142,267	110,567	101,757
	<u>\$ 566,395</u>	<u>\$ 515,875</u>	<u>\$ 481,097</u>

Net profits on inventory sales included in commissions are:

Year ended December 31,	2016	2015	2014
Revenue from inventory sales	\$ 571,134	\$ 555,827	\$ 758,437
Cost of inventory sold	(513,348)	(511,892)	(709,072)
	<u>\$ 57,786</u>	<u>\$ 43,935</u>	<u>\$ 49,365</u>

6. Operating expenses

Certain prior period operating expenses have been reclassified to conform with current presentation.

Costs of services, excluding depreciation and amortization.

Year ended December 31,	2016	2015	2014
Employee compensation expenses	\$ 27,856	\$ 22,855	\$ 22,857
Buildings, facilities and technology expenses	7,966	7,179	7,609
Travel, advertising and promotion expenses	23,688	22,150	23,006
Other costs of services	6,552	3,842	4,412
	<u>\$ 66,062</u>	<u>\$ 56,026</u>	<u>\$ 57,884</u>

SG&A expenses

Year ended December 31,	2016	2015	2014
Employee compensation expenses	\$ 180,929	\$ 166,227	\$ 159,398
Buildings, facilities and technology expenses	49,219	41,404	41,725
Travel, advertising and promotion expenses	24,384	22,307	22,454
Professional fees	13,344	12,500	11,480
Other SG&A expenses	15,653	11,951	13,163
	<u>\$ 283,529</u>	<u>\$ 254,389</u>	<u>\$ 248,220</u>

Transactions with management

In December 2016, the Company entered into a separation agreement with the President, US & LATAM in respect of his departure in 2017. Pursuant to that separation agreement, additional short-term benefits in the amount of \$737,000 and accelerated vesting of share-based payments in the amount of \$202,000 were recognized in SG&A expenses during the year ended December 31, 2016.

During the year ended December 31, 2015, the Company recognized \$2.1 million in termination benefits resulting from a separation agreement with the former Chief Sales Officer.

Notes to the Consolidated Financial Statements

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

6. Operating expenses (continued)**SG&A expenses (continued)*****Transactions with management (continued)***

During the year ended December 31, 2014, the Company initiated a management reorganization impacting various members of senior management. In total, \$5,533,000 of termination benefits were recognized in SG&A expenses during the year ended December 31, 2014 in relation to the management reorganization.

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 28), 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,	2016	2015	2014
IronPlanet (note 28)	\$ 8,202	\$ -	\$ -
Mascus: (note 30)			
Continuing employment costs	954	-	-
Other acquisition-related costs	766	-	-
Xcira: (note 30)			
Continuing employment costs	1,111	191	-
Other acquisition-related costs	-	410	-
Petrowsky: (note 30)			
Continuing employment costs	350	-	-
Other acquisition-related costs	254	-	-
Kramer: (note 30)			
Continuing employment costs	76	-	-
Other acquisition-related costs	116	-	-
	<u>\$ 11,829</u>	<u>\$ 601</u>	<u>\$ -</u>

Depreciation and amortization expenses

Year ended December 31,	2016	2015	2014
Depreciation expense	\$ 30,983	\$ 35,374	\$ 39,966
Amortization expense	9,878	6,658	4,570
	<u>\$ 40,861</u>	<u>\$ 42,032</u>	<u>\$ 44,536</u>

During the year ended December 31, 2016, depreciation expense of \$2,880,000 (2015: \$4,340,000; 2014: \$5,949,000) and amortization expense of \$7,218,000 (2015: \$4,680,000; 2014: \$2,620,000) was 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.

Goodwill arising from the acquisition of AssetNation, the provider of our online marketplaces, forms part of the 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.

As a result of the identification of an indicator of impairment of the EquipmentOne reporting unit, a US GAAP two-step goodwill impairment test was performed at September 30, 2016. Step one of the goodwill impairment test indicated that the carrying amount (including goodwill) of the EquipmentOne reporting unit exceeded its fair value. Accordingly, the impairment test proceeded to step two, wherein the step one fair value of the EquipmentOne reporting unit was used to estimate the implied fair value of the goodwill.

The second step of the goodwill impairment test involved allocating the EquipmentOne reporting unit fair value to all the assets and liabilities of that reporting unit based on their estimated fair values. Management used a blended analysis of the earnings approach, which employs a discounted cash flow methodology, and the market approach, which employs a multiple of earnings methodology, to determine the fair values of the intangible assets and to measure the goodwill impairment loss.

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.

At September 30, 2016, for the same reason noted above under the 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.

Notes to the Consolidated Financial Statements

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

7. Impairment loss (continued)

Long-lived asset impairment (continued)

The results of the recoverability test indicated that the EquipmentOne reporting unit carrying amount (including goodwill but excluding deferred tax assets, deferred tax liabilities, and income taxes payable) exceeded the sum of its future undiscounted cash flows. As such, management then used an earnings approach to estimate the fair values of the EquipmentOne long-lived assets and compared those fair values to their carrying amounts.

Based on the results of the long-lived asset impairment test, the Company recorded a pre-tax 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 EquipmentOne reporting unit prior to the completion of the goodwill impairment test described above.

During the year ended December 31, 2014, the Company recognized a total impairment loss of \$8,084,000 on its auction site property located in Narita, Japan. The impairment loss consisted of \$6,094,000 on the land and improvements and \$1,990,000 on the auction building (the "Japanese assets"). Management assessed the recoverable amounts of the Japanese assets when results of an assessment of the Japan auction operations and performance of that auction site indicated impairment, and management concluded that the undiscounted cash flows resulted in recoverable amounts below the carrying value of the Japanese assets. The fair values of the Japanese assets were determined to be \$16,150,000 for the land and improvements and \$4,779,000 for the auction building based on the fair value less costs of disposal.

The Company performed a valuation of the Japanese assets as at September 30, 2014. The fair value of the land and improvements was determined based on comparable data in similar regions and relevant information regarding recent events impacting the local real-estate market (Level 3 inputs). The fair value of the auction building was determined based on a depreciated asset cost model with adjustments for relevant market participant data based on the Company's experience with disposing of similar auction buildings and current real estate transactions in similar regions (Level 3 inputs).

Determination of the recoverable amount of the Japanese assets involved estimating any costs that would be incurred if the assets were disposed of, including brokers' fees, costs to prepare the Japanese assets for sale and other selling fees. In determining these costs, management assumed that any costs required to prepare the Japanese assets for sale could be estimated based on current market rates for brokers' fees and management's experience with disposing of similar auction sites, taking into consideration the relative newness of the Japan auction site (Level 3 inputs).

The impaired Narita land and improvements and auction building form part of the Company's Core Auction reportable segment.

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,	2016	2015	2014
Income before income taxes	\$ 130,494	\$ 176,436	\$ 129,038
Statutory federal and provincial tax rate in Canada	26.00%	26.00%	26.00%
Expected income tax expense	\$ 33,928	\$ 45,873	\$ 33,550
Impairment of Goodwill	6,129	-	-
Non-deductible expenses	3,891	2,579	2,392
Non-taxable income	(624)	-	-
Sale of capital property	-	(1,291)	(407)
Changes in the valuation of deferred tax assets	(259)	(5,828)	7,083
Different tax rates of subsidiaries operating in foreign jurisdictions	(3,786)	(3,426)	(4,773)
Deductions for tax purposes in excess of accounting expenses	(490)	(266)	(82)
Provincial government income tax exemption	(352)	(265)	(92)
Other	(1,455)	485	(1,196)
	<u>\$ 36,982</u>	<u>\$ 37,861</u>	<u>\$ 36,475</u>

The income tax expense (recovery) consists of:

Year ended December 31,	2016	2015	2014
Canadian:			
Current tax expense	\$ 30,525	\$ 27,623	\$ 21,712
Deferred tax expense	(2,068)	1,880	1,680
Foreign:			
Current tax expense before application of operating loss carryforwards	12,126	16,707	12,236
Tax benefit of operating loss carryforwards	(2,310)	(1,910)	(627)
Total foreign current tax expense	9,816	14,797	11,609
Deferred tax expense before adjustment to opening valuation allowance	(1,291)	(273)	1,474
Adjustment to opening valuation allowance	-	(6,166)	-
Total foreign deferred tax expense	(1,291)	(6,439)	1,474
	<u>\$ 36,982</u>	<u>\$ 37,861</u>	<u>\$ 36,475</u>

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,	2016	2015
Deferred tax assets:		
Working capital	\$ 3,991	\$ 4,082
Property, plant and equipment	5,475	5,236
Goodwill	341	286
Share-based compensation	3,154	3,243
Unused tax losses	17,790	17,079
Other	18,286	14,704
	<u>49,037</u>	<u>44,630</u>
Deferred tax liabilities:		
Property, plant and equipment	\$ (10,019)	\$ (11,292)
Goodwill	(12,976)	(12,587)
Intangible assets	(11,062)	(9,370)
Other	(21,827)	(17,308)
	<u>(55,884)</u>	<u>(50,557)</u>
Net deferred tax assets (liabilities)	<u>\$ (6,847)</u>	<u>\$ (5,927)</u>
Valuation allowance	(10,411)	(11,781)
	<u>\$ (17,258)</u>	<u>\$ (17,708)</u>

At December 31, 2016, 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:

2017	\$ 656
2018	489
2019	159
2020	5,452
2021 and thereafter	43,573
	<u>\$ 50,329</u>

The Company has capital loss carryforwards of approximately \$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.

Notes to the Consolidated Financial Statements

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

8. Income taxes (continued)

The foreign provision for income taxes is based on foreign pre-tax earnings of \$25,139,000, \$64,139,000, and \$42,221,000 in 2016, 2015 and 2014, respectively. The Company's consolidated financial statements provide for any related tax liability on undistributed earnings. As of December 31, 2016, income taxes have not been provided on a cumulative total of \$375,000,000 of such earnings. The amount of unrecognized deferred tax liability related to these temporary differences is estimated to be approximately \$4,200,000. Earnings retained by subsidiaries and equity-accounted investments amount to approximately \$450,000,000 (2015: \$411,000,000; 2014: \$380,000,000). 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.

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, 2016, the Company had gross unrecognized tax benefits of \$19,262,000 (2015: \$15,904,000). Of this total, \$9,227,000 (2015: \$8,419,000) 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,	2016	2015
Unrecognized tax benefits, beginning of year	\$ 15,904	\$ 16,131
Increases - tax positions taken in prior period	846	800
Decreases - tax positions taken in prior period	-	(30)
Increases - tax positions taken in current period	2,785	1,770
Settlement and lapse of statute of limitations	(273)	(2,767)
Unrecognized tax benefits, end of year	<u>\$ 19,262</u>	<u>\$ 15,904</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, 2016, the Company had accrued \$2,695,000 (2015: \$2,102,000) for interest and penalties.

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 2011 to 2016 remain subject to examination in Canada, the United States, and Luxembourg.

Notes to the Consolidated Financial Statements

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

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

Until July 12, 2016, the Company held a 51% interest in Ritchie Bros. Financial Services ("RBFS"), an entity that provides loan origination services to enable the Company's auction customers to obtain financing from third party lenders. As a result of the Company's involvement with RBFS, the Company is exposed to risks related to the recovery of the net assets of RBFS as well as liquidity risks associated with the put option discussed below.

Management determined that RBFS was a variable interest entity because the Company provided subordinated financial support to RBFS and because the Company's voting interest was disproportionately low in relation to its economic interest in RBFS while substantially all the activities of RBFS involved or were conducted on behalf of the Company. Management also determined that the Company was the primary beneficiary of RBFS as the Company was part of a related party group that had the power to direct the activities that most significantly impacted RBFS's economic performance, and although no individual member of that group had such power, the Company represented the member of the related party group that was most closely associated with RBFS.

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").

For the comparative reporting period presented, management determined that redemption was probable and measured the carrying amount of the contingently redeemable NCI at its estimated December 31, 2015 redemption value of \$24,785,000. The estimation of redemption value at that date required management to make significant judgments, estimates, and assumptions.

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). That 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

	Net income attributable to stockholders	WA number of shares	Per share amount
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>
Year ended December 31, 2014			
Basic	\$ 90,981	107,268,425	\$ 0.85
Effect of dilutive securities:			
Stock options	-	386,403	-
Diluted	<u>\$ 90,981</u>	<u>107,654,828</u>	<u>\$ 0.85</u>

In respect of PSUs awarded under the senior executive and employee PSU plans (described in note 26), 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, 2016, PSUs to purchase 173,754 common shares were outstanding but excluded from the calculation of diluted EPS attributable to stockholders as they were anti-dilutive (2015 and 2014: nil). For the year ended December 31, 2016, stock options to purchase 752,197 common shares were outstanding but were excluded from the calculation of diluted earnings per share as they were anti-dilutive (2015: 253,839; 2014: 962,121).

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,	2016	2015	2014
Trade and other receivables	6,419	12,757	(113)
Inventory	26,557	(17,635)	4,109
Advances against auction contracts	(1,012)	20,804	(14,230)
Prepaid expenses and deposits	(7,443)	(307)	(3,873)
Income taxes receivable	(10,686)	742	(958)
Auction proceeds payable	550	5,151	(3,855)
Trade and other payables	5,627	(7,654)	13,826
Income taxes payable	(8,657)	3,481	2,408
Share unit liabilities	4,503	5,397	5,699
Other	(5,176)	2,398	(4,810)
Net changes in operating assets and liabilities	<u>\$ 10,682</u>	<u>\$ 25,134</u>	<u>\$ (1,797)</u>

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 \$29,785,000 for the year ended December 31, 2016 (2015: \$14,152,000; 2014: \$29,595,000).

Year ended December 31,	2016	2015	2014
Interest paid, net of interest capitalized	\$ 5,792	\$ 4,989	\$ 4,823
Interest received	1,861	2,657	2,218
Net income taxes paid	54,037	34,661	29,089
Non-cash transactions:			
Non-cash purchase of property, plant and equipment under capital lease	3,376	943	2,143

As at December 31,	2016	2015	2014
Cash and cash equivalents	\$ 207,867	\$ 210,148	\$ 139,815
Restricted cash:			
Current	50,222	83,098	93,274
Non-current	500,000	-	-
Cash, cash equivalents, and restricted cash	<u>\$ 758,089</u>	<u>\$ 293,246</u>	<u>\$ 233,089</u>

Notes to the Consolidated Financial Statements

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

11. Supplemental cash flow information (continued)

As described in note 2, the Company early adopted ASU 2016-18, *Statement of Cash Flows (Topic 230)*, *Restricted Cash*, which requires that the change in the total of cash, cash equivalents, and restricted cash during a reporting period be explained in the SCF. Therefore, the Company has included its restricted cash balances when reconciling the total beginning and end of period amounts shown on the face of the SCF. The effect of these changes is detailed below.

	2016			Year ended December 31,	
	Q3	Q2	Q1	2015	2014
Net changes in operating assets and liabilities:					
As reported	\$ 91,913	\$ (147,664)	\$ 94,733	\$ 25,032	\$ 20,550
Current presentation	(20,646)	(68,768)	126,394	25,134	(1,797)
Net cash provided by (used in) operating activities:					
As reported	125,868	(96,459)	134,014	196,357	171,366
Current presentation	13,309	(17,563)	165,675	196,459	149,019
Effect of changes in foreign currency rates on cash:					
As reported	(1,738)	(2,861)	8,938	(15,987)	(14,390)
Current presentation	(1,937)	(3,530)	12,123	(26,265)	(18,534)
Increase (decrease) in cash:					
As reported	64,483	(127,573)	83,926	70,333	25,219
Current presentation	(48,275)	(49,346)	118,772	60,157	(1,272)
Cash and cash equivalents	230,984	166,501	294,074	210,148	139,815
Total cash, cash equivalents and restricted cash	314,397	362,672	412,018	293,246	233,089

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.

Notes to the Consolidated Financial Statements

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

12. Fair value measurement (continued)

Category	December 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>Fair values disclosed, recurring:</i>				
Cash and cash equivalents	Level 1	\$ 207,867	\$ 207,867	\$ 210,148
Restricted cash	Level 1	550,222	550,222	83,098
Short-term debt (note 24)	Level 2	23,912	23,912	12,350
Current portion of long-term debt (note 24)	Level 2	-	-	43,348
Long-term debt (note 24)				
Senior unsecured notes	Level 1	495,780	509,500	-
Revolving loans	Level 2	99,926	99,926	-
Term loans	Level 2	-	-	54,567
				56,126

The carrying value of the Company's cash and cash equivalents, trade and other current receivables, advances against auction contracts, auction proceeds payable, trade and other payables, and current borrowings approximate their fair values due to their short terms to maturity.

The fair values of the revolving loans approximate their fair values due to their short terms to maturity. The fair values of the term loans are determined through the calculation of each liability's present value using market rates of interest at period close. The fair value of the senior unsecured notes is determined by reference to a quoted market price.

13. Trade and other receivables

As at December 31,	2016	2015
Trade receivables	\$ 45,317	\$ 50,388
Consumption taxes receivable	5,575	8,178
Other receivables	2,087	846
	<u>\$ 52,979</u>	<u>\$ 59,412</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 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, 2016, trade receivables of \$45,317,000 were more than seven days past due but not considered impaired (December 31, 2015: \$50,388,000). As at December 31, 2016, there were \$6,581,000 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, 2015: \$4,639,000).

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.

Notes to the Consolidated Financial Statements

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

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, 2016, the Company recorded inventory write downs of \$3,084,000 (2015: \$480,000; 2014: \$2,177,000).

Of inventory held at December 31, 2016, 93% is expected to be sold prior to the end of March 2017, with the remainder to be sold by the end of June 2017 (December 31, 2015: 91% sold by the end of March 2015). During the year ended December 31, 2016, inventory was held for an average of approximately 31 days (2015: 31 days; 2014: 30 days).

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,	2016	2015
Prepaid expenses	\$ 17,926	\$ 10,347
Refundable deposits	1,079	710
	<u>\$ 19,005</u>	<u>\$ 11,057</u>

17. Assets held for sale

Balance, December 31, 2014	\$ 1,668
Reclassified from property, plant and equipment	2,719
Site preparation costs	1,079
Disposal	(4,624)
Foreign exchange movement	(213)
Balance, December 31, 2015	\$ 629
Reclassified from property, plant and equipment	237
Disposal	(242)
Site preparation costs	8
Balance, December 31, 2016	<u>\$ 632</u>

As at December 31, 2016 and December 31, 2015, the Company's assets held for sale consisted of land located in Denver, United States, and Orlando, United States, representing excess auction site acreage.

Notes to the Consolidated Financial Statements

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

17. Assets held for sale (continued)

During the year ended December 31, 2016 the Company sold excess auction site acreage in Denver and reclassified an additional parcel relating to the Denver auction site to assets held for sale. Management made the strategic decision to sell this excess acreage to maximize the Company's return on invested capital. As at December 31, 2016, the properties are being actively marketed for sale through an independent real estate broker, and management expects the sales to be completed within 12 months of that date. These land assets belong to the Core Auction reportable segment.

During the year ended December 31, 2016, the Company sold property located in Denver, United States, recognizing a net gain on disposition of property, plant and equipment of \$493,000 (2015: \$8,485,000 gain related to the sale, of property in Edmonton, Canada and London, Canada; 2014: \$3,386,000 gain related to the sale of property in Grande Prairie, Canada).

18. Property, plant and equipment

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>

As at December 31, 2015	Cost	Accumulated depreciation	Net book value
Land and improvements	\$ 356,905	\$ (54,551)	\$ 302,354
Buildings	254,760	(82,100)	172,660
Yard and automotive equipment	59,957	(38,848)	21,109
Computer software and equipment	60,586	(50,754)	9,832
Office equipment	22,432	(15,660)	6,772
Leasehold improvements	20,893	(12,160)	8,733
Assets under development	7,131	-	7,131
	<u>\$ 782,664</u>	<u>\$ (254,073)</u>	<u>\$ 528,591</u>

During the year ended December 31, 2016, interest of \$95,000 (2015: \$86,000; 2014: \$904,000) was capitalized to the cost of assets under development. These interest costs relating to qualifying assets are capitalized at a weighted average rate of 3.99% (2015: 6.27% %; 2014: 4.71%).

Additions during the year include \$3,376,000 (2015: \$943,000; 2014: \$2,143,000) of property, plant and equipment under capital leases.

Notes to the Consolidated Financial Statements

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

18. Property, plant and equipment (continued)

During the year ended December 31, 2014, the Company recognized impairment loss consisted of \$6,094,000 on land and improvements and \$1,990,000 on the auction building which was recorded as a reduction of asset costs (note 7).

19. Intangible assets

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>

As at December 31, 2015	Cost	Accumulated amortization	Net book value
Trade names and trademarks	\$ 800	\$ -	\$ 800
Customer relationships	22,800	(7,097)	15,703
Software	23,269	(5,848)	17,421
Software under development	13,049	-	13,049
	<u>\$ 59,918</u>	<u>\$ (12,945)</u>	<u>\$ 46,973</u>

At December 31, 2016, a net carrying amount of \$22,665,000 (December 31, 2015: \$13,849,000) included in intangible assets was not subject to amortization. During the year ended December 31, 2016, the cost of additions was reduced by \$1,094,000 for recognition of tax credits (2015: \$1,678,000; 2014: \$297,000).

During the year ended December 31, 2016, interest of \$356,000 (2015: \$772,000; 2014: \$1,258,000) was capitalized to the cost of software under development. These interest costs relating to qualifying assets are capitalized at a weighted average rate of 4.91% (2015: 6.39%; 2014: 6.39%).

During the year ended December 31, 2016, the weighted average amortization period for all classes of intangible assets was 8.2 years (2015: 7.9 years; 2014: 7.9 years).

As at December 31, 2016, estimated annual amortization expense for the next five years ended December 31 are as follows:

2016	\$ 10,878
2017	9,609
2018	7,954
2019	5,030
2020	3,422
	<u>\$ 36,893</u>

Notes to the Consolidated Financial Statements

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

20. Goodwill

Balance, December 31, 2014	\$	82,354
Additions		10,659
Foreign exchange movement		(1,779)
Balance, December 31, 2015	\$	91,234
Additions (note 30)		30,794
Impairment loss (note 7)		(23,574)
Foreign exchange movement		(917)
Balance, December 31, 2016	\$	97,537

The carrying value of goodwill has been allocated to reporting units for impairment testing purposes as follows:

As at December 31,	2016	2015
Core Auction	\$ 64,577	\$ 53,303
EquipmentOne	14,357	37,931
Mascus	18,603	-
	<u>\$ 97,537</u>	<u>\$ 91,234</u>

21. 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 U.S. dollars, except percentages):

	Ownership percentage	December 31, 2016	December 31, 2015
Cura Classis entities	48%	\$ 4,594	\$ 3,487
Other equity investments	32%	2,732	3,000
		<u>7,326</u>	<u>6,487</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.

Notes to the Consolidated Financial Statements

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

22. Trade and other payables

As at December 31,	2016	2015
Trade payables	\$ 38,686	\$ 38,239
Accrued liabilities	44,775	47,193
Social security and sales taxes payable	14,759	15,208
Net consumption taxes payable	12,631	9,759
Share unit liabilities	10,422	6,204
Other payables	3,421	3,439
	<u>\$ 124,694</u>	<u>\$ 120,042</u>

23. Deferred compensation arrangement

The Company established a non-qualified deferred compensation arrangement (the “Deferred Compensation Arrangement”) which is available to certain US 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 \$1,838,000 (2015: \$1,030,000) is presented in other non-current liabilities. The cash surrender value of the COLI asset of \$1,777,000 (2015: \$1,138,000) is classified within other non-current assets, with changes in the deferred compensation liability and COLI asset charged to selling, general and administrative expenses (note 6).

Notes to the Consolidated Financial Statements

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

24. Debt

As at December 31,	Carrying amount	
	2016	2015
Short-term debt	\$ 23,912	\$ 12,350
Long-term debt:		
Term loan, denominated in Canadian dollars, unsecured, bearing interest at 4.225%, due in quarterly installments of interest only, with the full amount of the principal due in May 2022.	-	24,567
Term loan, denominated in United States dollars, unsecured, bearing interest at 3.59%, due in quarterly installments of interest only, with the full amount of the principal due in May 2022.	-	30,000
Term loan, denominated in Canadian dollars, unsecured, bearing interest at 6.385%, due in quarterly installments of interest only, with the full amount of the principal due in May 2016.	-	43,348
Revolving loan, 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	-
Revolving loan, 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	-
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	-
Less: unamortized debt issue costs	(4,220)	-
	<u>595,706</u>	<u>97,915</u>
Total debt	<u>\$ 619,618</u>	<u>\$ 110,265</u>
Long-term debt:		
Current portion	\$ -	\$ 43,348
Non-current portion	<u>595,706</u>	<u>54,567</u>
	<u>\$ 595,706</u>	<u>\$ 97,915</u>

On August 29, 2016, the Company obtained a financing commitment (the “Commitment Letter”) from Goldman Sachs Bank USA (“GS Bank”) pursuant to which GS Bank is committing to provide (i) a senior secured revolving credit facility in an aggregate principal amount of \$150,000,000 (the “Revolving Facility”) and (ii) a senior unsecured bridge loan facility in an aggregate principal amount of up to \$850,000,000 (the “Bridge Loan Facility”, and together with the Revolving Facility, the “Facilities”). Under the terms of the Commitment Letter, the Company may replace all or a portion of the Bridge Loan Facility with senior unsecured debt securities or certain other bank loan facilities. Debt issue costs related to these Facilities are discussed in note 28.

Notes to the Consolidated Financial Statements

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

24. Debt (continued)

On October 27, 2016, the Company entered into a credit agreement (the “Credit Agreement”) with a syndicate of lenders, including Bank of America, N.A. (“BofA”) and Royal Bank of Canada, 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, the “New 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.

The Company may use the proceeds from the Multicurrency Facilities to refinance certain existing indebtedness and for other general corporate purposes. Proceeds from the Delayed-Draw Facility can only be used to finance transactions contemplated by the Merger Agreement (note 28). The Multicurrency Facilities remain in place and outstanding even if the Merger Agreement is terminated and the Merger is not consummated.

The New Facilities will remain unsecured until the closing of the Merger, after which the New Facilities will be secured by certain Company assets. The New Facilities may become unsecured again after the Merger is consummated, subject to the Company meeting specified credit rating or leverage ratio conditions. The New Facilities will mature five years after the closing date of the Credit Agreement. The Delayed-Draw Facility will amortize in equal quarterly installments in an annual amount of 5% for the first two years after the closing of the Merger, and 10% in the third through fifth years after the closing of the Merger, with the balance payable at maturity.

Borrowings under the Credit Agreement will bear interest, at the Company’s 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. The applicable margin ranges from 0.25% to 1.50% for base rate loans, and 1.25% to 2.50% for LIBOR (or the equivalent of such currency) loans, depending on the Company’s leverage ratio at the time of borrowing. The Company must also pay quarterly in arrears a commitment fee equal to the daily amount of the unused commitments under the New Facilities multiplied by an applicable percentage per annum (which ranges from 0.25% to 0.50% depending on the Company’s leverage ratio).

The Company incurred debt issue costs of \$6,410,000 in connection with the Credit Agreement. At December 31, 2016, the Company had unamortized deferred debt issue costs relating to the Credit Agreement of \$6,182,000.

On October 27, 2016, the Company terminated its pre-existing revolving bi-lateral credit facilities, which consisted of \$312,961,000 of committed revolving credit facilities and \$292,159,000 of uncommitted credit facilities, as well as the \$50,000,000 bulge credit facility. On the same day, the Company also prepaid all outstanding debt issued under the terminated facilities using funds from the New Facilities, which resulted in the fixed rate long-term debt being replaced by floating rate long-term debt and \$6,787,000 in early termination fees, which were recognized in net income as a debt extinguishment cost on the transaction date. In conjunction with the closing of the Credit Agreement, the Company terminated the entire \$150,000,000 Revolving Facility and \$350,000,000 of the \$850,000,000 Bridge Loan Facility with GS Bank (note 28).

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”). The Notes were offered only to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and outside the United States, only to non-U.S. investors pursuant to Regulation S under the Securities Act. The Notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold in the United States absent an effective registration statement or an applicable exemption from registration requirements or a transaction not subject to the registration requirements of the Securities Act or any state securities laws.

Notes to the Consolidated Financial Statements

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

24. Debt (continued)

The Company will use the proceeds of the offering to finance in part the transactions contemplated by the Merger Agreement (note 28). Upon the closing of the offering, the gross proceeds from the offering together with certain additional amounts including prepaid interest were deposited in to an Escrow account. The funds will be held in escrow until the completion of the transactions contemplated by the Merger agreement. If the acquisition is not consummated on or before October 31, 2017 or the related agreement and plan of merger is terminated prior to such date, the Company will redeem all of the outstanding Notes at a redemption price equal to 100% of the original offering price of the Notes, plus accrued and unpaid interest. Until the release of the proceeds in the escrow account, the Notes will be secured by a first priority security interest in the escrow account. Upon the completion of the acquisition of IronPlanet, the Notes will be senior unsecured obligations. The Notes will be jointly and severally guaranteed on an unsecured, subordinated basis, subject to certain exceptions, by each of the Company's subsidiaries which guarantees the obligations under the Company's Credit Agreement. Upon consummation of the acquisition, IronPlanet and its subsidiaries are expected to become guarantors.

The Company incurred debt issue costs of \$4,234,000 in connection with the offering of the Notes. At December 31, 2016, the Company had unamortized deferred debt issue costs relating to the Notes of \$4,220,000.

On December 21, 2016, in conjunction with the closing of the offering of the Notes, the Company terminated the remaining \$500,000,000 of the \$850,000,000 Bridge Loan Facility with GS Bank.

The Company also has \$12,000,000 million in committed revolving credit facilities in certain foreign jurisdictions which expire on May 31, 2018.

At December 31, 2015, the current portion of long-term debt consisted of a Canadian dollar 60,000,000 term loan under the Company's uncommitted, non-revolving credit facility.

Short-term debt at December 31, 2016 is comprised of drawings in different currencies on the Company's committed revolving credit facilities of \$687,000,000 (2015: \$312,693,000), and have a weighted average interest rate of 2.2% (December 31, 2015: 1.8%).

As at December 31, 2016, principal repayments for the remaining period to the contractual maturity dates are as follows:

	Face value
2017	\$ 23,912
2018	-
2019	-
2020	-
2021	99,926
Thereafter	500,000
	<u>\$ 623,838</u>

As at December 31, 2016, the Company had available committed revolving credit facilities aggregating \$548,649,000, of which \$538,574,000 is available until October 27, 2021. The Company also had available \$325,000,000 under the delayed draw term loan facility.

Notes to the Consolidated Financial Statements

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

24. Debt (continued)

The Company is required to meet financial covenants established by its lenders. These include fixed charge coverage ratio and leverage ratio measurements. As at December 31, 2016 and 2015, the Company is in compliance with these covenants. The Company is not subject to any statutory capital requirements, and has not made any changes with respect to its overall capital management strategy during the years ended December 31, 2016 and 2015.

25. 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

During March 2016, 1,460,000 common shares (March 2015: 1,900,000) were repurchased at a weighted average ("WA") share price of \$25.16 (2015: \$24.98) per common share. The repurchased shares were cancelled on March 15, 2016 (2015: March 26, 2015).

Dividends***Declared and paid***

The Company declared and paid the following dividends during the years ended December 31, 2016, 2015 and 2014:

	Declaration date	Dividend per share	Record date	Total dividends	Payment date
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
Year ended December 31, 2014:					
Fourth quarter 2013	January 20, 2014	\$ 0.1300	February 14, 2014	\$ 13,915	March 7, 2014
First quarter 2014	May 2, 2014	0.1300	May 23, 2014	13,942	June 13, 2014
Second quarter 2014	August 5, 2014	0.1400	August 22, 2014	15,028	September 12, 2014
Third quarter 2014	November 4, 2014	0.1400	November 21, 2014	15,044	December 12, 2014

Notes to the Consolidated Financial Statements

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

25. 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 \$18,160,000. The aggregate amount of the proposed final dividend is expected to be paid out of retained earnings on March 3, 2017 to stockholders of record on February 10, 2017. 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.

26. Share-based payments

Share-based payments consisted of the following compensation costs recognized in selling, general and administrative expenses:

Year ended December 31,	2016	2015	2014
Stock option compensation expense	\$ 5,507	\$ 4,001	\$ 3,710
Share unit expense:			
Equity-classified PSUs	1,981	-	-
Liability-classified share units	10,512	5,673	5,864
Employee share purchase plan - employer contributions	1,597	1,332	1,272
	<u>\$ 19,597</u>	<u>\$ 11,006</u>	<u>\$ 10,846</u>

Stock option plan

The Company has a stock option plan that provides for the award of stock options to selected employees, directors and officers of the Company.

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, 2016, there were 4,202,631 (December 31, 2015: 1,874,798) shares authorized and available for grants of options under the stock option plan.

Notes to the Consolidated Financial Statements

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

26. Share-based payments (continued)

Stock option plan (continued)

Stock option activity for the years ended December 31, 2016, 2015, and 2014 is presented below:

	Common shares under option	WA exercise price	WA remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, December 31, 2013	3,749,574	\$ 21.09		
Granted	837,364	23.60		
Exercised	(663,152)	18.28		\$ 4,304
Forfeited	(25,995)	23.26		
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	7.5	\$ 33,601
Exercisable, December 31, 2016	1,319,750	\$ 23.20	5.8	\$ 14,258

The options outstanding at December 31, 2016 expire on dates ranging to August 11, 2026. The WA share price of options exercised during the year ended December 31, 2016 was \$31.18 (2015: \$27.78; 2014: \$24.77). The WA grant date fair value of options granted during the year ended December 31, 2016 was \$4.72 per option (2015: \$5.39; 2014: \$5.35).

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 year ended December 31, 2016, 2015, and 2014 are presented in the following table on a weighted average basis:

Year ended December 31,	2016	2015	2014
Risk free interest rate	1.2%	1.8%	1.8%
Expected dividend yield	2.66%	2.18%	2.31%
Expected lives of the stock options	5 years	5 years	5 years
Expected volatility	26.5%	26.4%	29.3%

Risk free interest rate is the US Treasury Department five-year treasury yield curve rate on the date of the grant. Expected dividend yield assumes a continuation of the most recent quarterly dividend payments. Expected life of options is based on the age of the options on the exercise date over the past five years. Expected volatility is based on the historical common share price volatility over the past five years.

Notes to the Consolidated Financial Statements

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

26. Share-based payments (continued)

Stock option plan (continued)

The compensation expense arising from option grants is amortized over the relevant vesting periods of the underlying options. As at December 31, 2016, the unrecognized stock-based compensation cost related to the non-vested stock options was \$3,976,000, which is expected to be recognized over a weighted average period of 2.1 years. Cash received from stock-based award exercises for the year ended December 31, 2016 was \$24,338,000 (2015: \$29,816,000; 2014: \$12,121,000). The actual tax benefit realized for the tax deductions from option exercise of the share based payment arrangements totaled \$1,464,000 for the year ended December 31, 2016 (2015: \$1,150,000; 2014: \$476,000).

Share unit plans

Share unit activity for the years ended December 31, 2016, 2015, and 2014 is presented below:

	Equity-classified awards				Liability-classified awards			
	PSUs		PSUs (1)		Restricted share units		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
Outstanding, December 31, 2013	-	\$ -	76,227	\$ 21.99	271,924	\$ 21.78	19,624	\$ 21.99
Granted	-	-	186,554	23.82	237,645	22.86	22,665	22.66
Vested and settled	-	-	(3,702)	22.22	(65,293)	22.01	-	-
Forfeited	-	-	(20,506)	22.38	(40,689)	22.32	-	-
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

(1) Liability-classified PSUs include PSUs awarded under the employee PSU plan, the sign-on grant PSU plan, and other PSUs plans 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, 2016 was \$4,463,000 (2015: \$1,253,000; 2014: \$1,578,000). As at December 31, 2016, the Company had a total share unit liability of \$14,665,000 (December 31, 2015: \$11,836,000) in respect of share units under the PSU, Restricted Share Unit ("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.

Notes to the Consolidated Financial Statements

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

26. Share-based payments (continued)

Share unit plans (continued)

Senior executive and employee PSU plans

In 2015 and 2016, the Company granted share units under two new PSU plans, a senior executive PSU plan and an employee PSU plan (the “new plans”). Under the new 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.

Prior to May 2, 2016, the Company was only able to settle the PSU awards under the new 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 new plans, allowing the Company to choose whether to settle the awards in cash or in shares. With respect to settling in shares, the new settlement options allow the Company 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. 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 new 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 new 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 2016 and 2015 are presented in the following table on a weighted average basis:

Year ended December 31,	2016	2015
Risk free interest rate	1.2%	1.3%
Expected dividend yield	2.40%	2.17%
Expected lives of the PSUs	3 years	3 years
Expected volatility	29.7%	29.4%
Average expected volatility of comparable companies	37.0%	32.8%

Notes to the Consolidated Financial Statements

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

26. Share-based payments (continued)**Share unit plans (continued)****Senior executive and employee PSU plans (continued)**

Risk free interest rate is estimated using Bloomberg's U.S. 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 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 2016 are presented in the following table on a weighted average basis:

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

As at December 31, 2016, the unrecognized share unit expense related to equity-classified PSUs was \$4,694,000, which is expected to be recognized over a weighted average period of 1.7 years. The unrecognized share unit expense related to liability-classified PSUs was \$5,351,000, which is expected to be recognized over a weighted average period of 1.8 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 are cash-settled and subject to market vesting conditions related to the Company's share performance over rolling two, three, four, and five-year periods.

The fair value of the liability-classified SOG PSUs 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 SOG PSUs during the years ended December 31, 2016, 2015, and 2014 are presented in the following table on a weighted average basis:

Year ended December 31,	2016	2015	2014
Risk free interest rate	1.1%	1.4%	1.8%
Expected dividend yield	2.23%	2.19%	2.09%
Expected volatility	28.2%	32.6%	27.8%

Risk free interest rate is estimated using Bloomberg's U.S. 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 SOG 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. Comparatively, the SOG PSUs vest in four tranches with the last tranche vesting five years after the grant date. As such, the Company estimates the expected lives of each tranche of SOG PSUs to equal the respective vesting period for the tranche, which is two, three, four, or five years. Expected volatility is estimated from Bloomberg's volatility surface of the common shares as of the valuation date.

Notes to the Consolidated Financial Statements

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

26. Share-based payments (continued)

Share unit plans (continued)

Other PSUs

The Company also has other liability-classified PSUs granted under plans in place prior to 2015 that are cash-settled and not subject to market vesting conditions. The fair values of these liability-classified PSUs is 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.

RSUs and DSUs

The Company has Restricted Share Unit ("RSU") and DSU plans that are cash-settled and not subject to market vesting conditions. Fair values of share units under these plans 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.

As at December 31, 2016, the unrecognized share unit expense related to liability-classified restricted share units ("RSUs") was \$549,000, which is expected to be recognized over a weighted average period of 0.6 years. There is no unrecognized share unit expense related to liability-classified DSUs as they vest immediately 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.

27. Commitments

Commitments for expenditures

As at December 31, 2016, the Company had committed to, but not yet incurred, \$3,197,000 in capital expenditures for property, plant and equipment and intangible assets (December 31, 2015: \$1,820,000).

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 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.

Notes to the Consolidated Financial Statements

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

27. Commitments (continued)**Operating lease commitments – the Company as lessee (continued)**

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

2017	\$	12,664
2018		11,531
2019		9,902
2020		8,180
2021		6,443
Thereafter		56,716
	\$	<u>105,436</u>

As at December 31, 2016, the total future minimum sublease payments expected to be received under non-cancellable subleases is \$577,000 (December 31, 2015: \$1,077,000). The lease expenditure charged to earnings during the year ended December 31, 2016 was \$20,075,000 (2015: \$17,367,000; 2014: \$18,139,000).

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.

As at December 31, 2016, the net carrying amount of computer and yard equipment under capital leases is \$3,968,000 (December 31, 2015: \$2,192,000), 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:

2017	\$	1,484
2018		1,228
2019		1,138
2020		391
2021		-
Thereafter		-
	\$	<u>4,241</u>

Assets recorded under capital leases are as follows:

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>

Notes to the Consolidated Financial Statements

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

27. Commitments (continued)

As at December 31, 2015	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 6,080	\$ (4,132)	\$ 1,948
Yard and auto equipment	315	(71)	244
	<u>\$ 6,395</u>	<u>\$ (4,203)</u>	<u>\$ 2,192</u>

28. Contingencies**Costs contingent on consummation of IronPlanet acquisition**

On August 29, 2016, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which it agreed to acquire IronPlanet (the “Merger”). Under the terms of Merger Agreement, the Company will acquire 100% of the equity of IronPlanet for approximately \$740,000,000 in cash plus the assumption of unvested equity interests in IronPlanet, subject to adjustment, which brings the total transaction value to approximately \$758,500,000. The Merger is subject to customary conditions, including (i) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, as well as the obtaining of certain foreign antitrust

clearances, and (ii) the Committee on Foreign Investment in the United States having provided written notice to the effect that review of the transactions contemplated by the Merger Agreement has been concluded and has terminated all action under the Section 721 of the Defence Production Act of 1950, as amended.

Debt issue costs

In connection with the execution of the Merger Agreement, the Company obtained the Commitment Letter, dated August 29, 2016, from GS Bank pursuant to which GS Bank committed to providing the Facilities (discussed in note 24). Consideration for GS Bank’s services in this regard include one-time fees totalling \$13,750,000 that are contingent upon consummation of the Merger. These debt issue costs have not been recognized at December 31, 2016.

Advisory costs

The Company has entered into various contractual arrangements with Goldman, Sachs & Co. and GS Bank (together, “Goldman Sachs”) whereby Goldman Sachs has provided financial structuring and acquisition advisory services in relation to the Company’s agreement to acquire IronPlanet. Consideration for Goldman Sachs’s services in this regard, for which the maximum amount payable by the Company at December 31, 2016 is \$8,625,000, is contingent upon consummation of the Merger. These advisory costs have not been recognized at December 31, 2016. They will be expensed as acquisition-related costs when they are recognized.

Legal and other claims

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

Notes to the Consolidated Financial Statements

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

28. Contingencies (continued)

Guarantee contracts (continued)

At December 31, 2016 there was \$3,813,000 of industrial assets guaranteed under contract, of which 100% is expected to be sold prior to the end of March 2017 (December 31, 2015: \$25,267,000 of which 100% sold prior to the end of May 2016).

At December 31, 2016 there was \$11,415,000 of agricultural assets guaranteed under contract, of which 100% is expected to be sold prior to the end of July 2017 (December 31, 2015: \$30,509,000 of which 100% sold prior to the end of August 2016).

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

29. Selected quarterly financial data (unaudited)

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

				Attributable to stockholders			
				Net	Earnings (loss) per share		
				income	Basic	Diluted	
2016	Revenues	Operating income	Net income (loss)	income (loss)			
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	
				Attributable to stockholders			
				Net	Earnings per share		
				income	Basic	Diluted	
2015	Revenues	Operating income	Net income	income			
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	
				Attributable to stockholders			
				Net	Earnings per share		
				income	Basic	Diluted	
2014	Revenues	Operating income	Net income	income			
First quarter	\$ 98,588	\$ 19,081	\$ 13,435	\$ 13,174	\$ 0.12	\$ 0.12	
Second quarter	141,835	51,773	37,536	37,008	0.35	0.34	
Third quarter	102,217	15,903	9,643	9,382	0.09	0.09	
Fourth quarter	138,457	41,170	31,949	31,417	0.29	0.29	

Notes to the Consolidated Financial Statements

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

30. Business combinations**(a) 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) 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.

Mascus provisional 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	33,607
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	13,943
Goodwill acquired on acquisition	\$ 19,664

(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.

Notes to the Consolidated Financial Statements

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

30. Business combinations (continued)

(a) Mascus acquisition (continued)

The amounts included in the Mascus 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 Mascus 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 Mascus Acquisition Date. Adjustments to the preliminary values during the measurement period will be recorded in the operating results of the period in which the adjustments are determined. Changes to the amounts recorded as assets and liabilities will result in a corresponding adjustment to goodwill.

Goodwill

Goodwill has been allocated entirely to the Mascus reporting unit and included in "Other" for segmented information purposes and is based on an analysis of the fair value of net assets acquired. 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.

Contributed revenue and net income

The results of Mascus' operations are included in these consolidated financial statements from Mascus' Acquisition Date. Mascus' contribution to the Company's revenues and net income for the period from February 19, 2016 to December 31, 2016 was \$7,473,000 and \$808,000, respectively. Pro forma results of operations have not been presented as such pro forma financial information would not be materially different from historical results.

Contingent consideration

The Company may pay an additional amount not exceeding €3,198,000 (\$3,563,000) contingent upon the achievement of certain operating performance targets over the next three-year period. The Company has recognized a liability equal to the estimated fair value of the contingent payments the Company expects to make as of the acquisition date, which was €3,080,000 (\$3,431,000) on February 19, 2016. The Company will re-measure this liability each reporting period and record changes in the fair value in the consolidated income statement. For the period ending December 31, 2016, the Company recognized \$14,000 in other expense associated with the change in fair value.

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

Acquisition-related costs

Expenses totalling \$1,720,000 for legal fees, continuing employment costs, and other acquisition-related costs are included in the consolidated income statement for the period ended December 31, 2016.

Employee compensation in exchange for continued services

The Company may pay additional amounts not exceeding €1,625,000 (\$1,849,000) over three-year periods based on key employees' continuing employment with Mascus.

Notes to the Consolidated Financial Statements

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

30. Business combinations (continued)**(b) 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. 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 provisional 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.

The amounts included in the Petrowsky 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 Petrowsky

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 Petrowsky Acquisition Date.

Adjustments to the preliminary values during the measurement period will be recorded in the operating results of the period in which the adjustments are determined. Changes to the amounts recorded as assets and liabilities will result in a corresponding adjustment to goodwill.

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.

Goodwill

Goodwill has been allocated entirely to the Company’s Core Auction segment and is based on an analysis of the fair value of net assets acquired. 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.

Notes to the Consolidated Financial Statements

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

30. Business combinations (continued)

(b) Petrowsky acquisition (continued)

Contributed revenue and net loss

The results of Petrowsky's operations are included in these consolidated financial statements from Petrowsky Acquisition Date. Petrowsky's contribution to the Company's revenues and net income for the period from August 1, 2016 to December 31, 2016 was \$882,000 of revenues and a \$218,000 net loss, excluding continuing employment costs. Pro forma results of operations have not been presented as such pro forma financial information would not be materially different from historical results.

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. Based on the Company's current three-year forecast for this new business, it is determined that the fair value of the contingent consideration is \$1,433,000.

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

Acquisition-related costs

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

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 based on the founder of Petrowsky's continuing employment with the Company.

(c) 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 exceptionally strong customer relationships in central Canada. This acquisition is expected to significantly 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.

Notes to the Consolidated Financial Statements

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

30. Business combinations (continued)**(c) Kramer acquisition (continued)*****Kramer provisional 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 Petrowsky Acquisition Date	11,899
Assets acquired:	
Property, plant and equipment	\$ 399
Intangible assets ~	4,678
Fair value of identifiable net assets acquired	5,077
Goodwill acquired on acquisition	6,822

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

The amounts included in the Kramer 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 Kramer 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 Kramer Acquisition Date. Adjustments to the preliminary values during the measurement period will be recorded in the operating results of the period in which the adjustments are determined. Changes to the amounts recorded as assets and liabilities will result in a corresponding adjustment to goodwill.

Assets acquired

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

Goodwill

Goodwill has been allocated entirely to the Company's Core Auction segment and is based on an analysis of the fair value of net assets acquired. 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.

Contributed revenue and net loss

The results of Kramer's operations are included in these consolidated financial statements from the Kramer Acquisition Date. Kramer's contribution to the Company's revenues and net income for the period from November 15, 2016 to December 31, 2016 was \$58,000 of revenues and a \$199,000 net loss, excluding continuing employment costs. Pro forma results of operations have not been presented as such pro forma financial information would not be materially different from historical results.

Contingent consideration

As part of the acquisition, contingent consideration of up to Canadian dollar 2,500,000 (\$1,856,000) is payable to Kramer Auctioneers if certain revenue growth targets are achieved. The contingent consideration is based on the cumulative revenue growth during a three-year period ending November 15, 2019. Based on the Company's current three-year forecast of this new business, it is determined the fair value of the contingent consideration is Canadian dollar 725,000 (\$538,000).

Notes to the Consolidated Financial Statements

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

30. Business combinations (continued)

(c) Kramer acquisition (continued)

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

Acquisition-related costs

Expenses totalling \$192,000 for legal fees, continuing employment costs, and other acquisition-related costs are included in the consolidated income statements for the year ended December 31, 2016.

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 Auctions with the Company.

(d) Xcira acquisition

On November 4, 2015 (the "Xcira Acquisition Date"), the Company acquired 75% of the issued and outstanding shares of Xcira for cash consideration of \$12,359,000. The remaining 25% interests remain with the two founders of Xcira. Xcira is a Florida-based company, incorporated in the United States and its principal activity is the provision of software and technology solutions to auction companies. By acquiring Xcira, the Company acquired information technology capability and platform to build on its strong online bidding customer experience, and further differentiate itself from other industrial auction companies.

The Company has the option to buy out the remaining interest of the Xcira sellers subject to the terms of the Xcira Purchase Agreement. The acquisition was accounted for in accordance with ASC 805. The assets acquired, liabilities assumed, and the non-controlling interest were recorded at their estimated fair values at the Xcira Acquisition Date. Goodwill of \$10,659,000 was calculated as the fair value of consideration over the estimated fair value of the net assets acquired.

Xcira purchase price allocation

	November 4, 2015
Purchase price	\$ 12,359
Non-controlling interest	4,119
Total fair value at Xcira Acquisition Date	<u>16,478</u>
Assets acquired:	
Cash and cash equivalents	\$ 252
Trade and other receivables	1,382
Prepaid expenses	62
Property, plant and equipment	314
Other non-current assets	11
Intangible assets ~	4,300
Liabilities assumed:	
Trade and other payables	502
Fair value of identifiable net assets acquired	<u>5,819</u>
Goodwill acquired on acquisition	<u>\$ 10,659</u>

~ Consists of existing technology and customer relationships with estimated useful lives of five and 20 years, respectively

Notes to the Consolidated Financial Statements

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

30. Business combination (continued)

(d) Xcira acquisition (continued)

There was no contingent consideration under the terms of the acquisition, and as such no acquisition provisions were created.

Assets acquired and liabilities assumed

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

Goodwill

Goodwill has been allocated entirely to the Company's Core Auction segment and is based on an analysis of the fair value of net assets acquired. The main drivers generating goodwill are the Company's ability to utilize Xcira's experience to differentiate the Company's online bidding service from other industrial auction companies, as well as to secure Xcira's bidding technology. Online bidding represents a significant and growing portion of all bidding conducted at the Company's auctions.

Non-controlling interests

The fair value of the 25% non-controlling interest in Xcira is estimated to be \$4,119,000.

Contributed revenue and net income

The results of Xcira's operations are included in these consolidated financial statements from the date of acquisition. For the year ended December 31, 2016, Xcira recorded revenues of \$8,261,000 and net income of \$1,225,000, respectively. On consolidation, \$3,634,000 of inter entity revenues recorded by Xcira during the year ended December 31, 2016, respectively, were eliminated against the same amounts of inter-entity expenses recorded by another subsidiary within the wholly-owned group. Pro forma results of operations have not been presented as such pro forma financial information would not be materially different from historical results.

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

Acquisition-related costs

Expenses totalling \$1,111,000 for continuing employment costs are included in the consolidated income statement for the year ended December 31, 2016 (2015: \$191,000). There were no other acquisition-related costs for Xcira in 2016 (2015: \$410,000).

Employee compensation in exchange for continued services

The Company may pay an additional amount not exceeding \$2,000,000 over a three-year period based on the Founder's continuing employment with Xcira. For the year ending December 31, 2016, the Company paid \$667,000 relating to this compensation.

Future development of internally-generated software

The Company may pay an additional amount not exceeding \$2,700,000 over a two-year period upon achievement of certain conditions related to the delivery of an upgrade to its existing technology. The Company did not make any payments related to this software development in 2016.