

## **ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

### **Report of Independent Registered Public Accounting Firm**

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

##### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Ritchie Bros. Auctioneers Incorporated (the “Company”) as of December 31, 2019 and 2018, 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, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with US generally accepted accounting principles.

##### **Adoption of New Accounting Standard**

As discussed in Note 2(y) to the consolidated financial statements, the Company changed its method for accounting for leases in 2019.

##### **Report on Internal Control over Financial Reporting**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on the 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 27, 2020 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

##### **Basis for Opinion**

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

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

##### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### ***Valuation and existence of surplus government inventory***

*Description of the Matter* At December 31, 2019 the Company's inventory balance is \$65 million. As explained in Note 2(m) to the consolidated financial statements, inventory is valued at the lower of cost and net realizable value. Charges for inventory shrinkage, as well as for inventory written down to expected market price, are included in costs of goods sold in the period in which they have been determined to occur. The Company's inventory balance includes non-rolling stock inventory the Company has purchased for resale as part of its commitment to purchase certain surplus government property under the non-rolling stock surplus contract described in Note 26 to the consolidated financial statements.

Auditing the valuation and existence of the government surplus inventory involved significant auditor judgement, as the large volume of units of surplus government property acquired under the non-rolling stock program requires the Company to make an estimate of inventory shrinkage that is based on newly implemented processes for determining on-hand inventory quantities for this type of inventory. Auditing inventory quantities involved especially challenging auditor judgement due to the nature and extent of audit effort required to address the unpredictability in the timing of receipt of inventory under the related contract as well as the uniqueness of the inventory. Further, the Company's estimate of net realizable value can fluctuate based on factors such as future demand and supply and forecasted profit margin, which are subject to estimation uncertainty due to the Company having limited history of purchasing and selling government surplus inventory.

#### *How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's process to determine the valuation and existence of the government surplus inventory. This included controls over the Company's review of the significant assumptions and data underlying the estimates for inventory shrinkage and net realizable value as well as the Company's inventory counts and reconciliation controls to verify existence of inventory.

We performed substantive audit procedures to address existence of inventory and inventory shrinkage that included, among others, observing and evaluating management's inventory count procedures and performing inventory test counts and tracing our test count results to the Company's inventory compilation and testing a sample of the shipping and receiving activity from the inventory count date to December 31, 2019.

We also performed substantive audit procedures to address the estimate of net realizable value that included, among others, evaluating management's analysis including the retrospective review of historical gross margins, testing the accuracy and completeness of the underlying data used in this analysis, and testing subsequent sales of inventory items on-hand at year end to evaluate the completeness of the estimate.

### ***Valuation of Goodwill related to the Mascus reporting unit***

*Description of the Matter* At December 31, 2019, the Company's goodwill related to Mascus was \$20 million. As discussed in Note 2(r) to the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level. The Company's goodwill is further described in note 4 to the consolidated financial statements.

Auditing management's annual goodwill impairment test related to the Mascus reporting unit involved subjective auditor judgment due to the significant estimation uncertainty in determining the fair value of the reporting unit. The fair value estimate was made using a discounted cash flow model. Significant judgment was required in assessing the assumptions used, in particular projected revenue growth rates, the terminal growth rate and projected earnings before interest, taxes, depreciation and amortization (EBITDA) margins and the discount rate.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment review, including controls over management's review of the significant assumptions described above.

Our substantive procedures to test the Company's estimated fair value of the Mascus reporting unit, included, among others, assessing methodologies and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis. We assessed the projected revenue growth rates, terminal growth rates and EBITDA margins used by management by comparing them to current economic and industry trends. We assessed the historical accuracy of the Company's projections for revenue growth rates and EBITDA margins by comparing them to actual operating results. We performed sensitivity analysis of significant assumptions discussed above to evaluate the potential changes in the fair value of the reporting unit that would result from changes in the assumptions. We also involved our valuation specialists to assist in the review of the valuation methodology as well as the appropriateness of the discount rates used.

/s/Ernst & Young LLP

Chartered Professional Accountants

We have served as the Company's auditor since 2013.

Vancouver, Canada

February 27, 2020

## Consolidated Income Statements

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

Year ended December 31,	2019	2018	2017
Revenue:			
Service revenue	\$ 804,024	\$ 749,515	\$ 624,417
Inventory sales revenue	514,617	420,511	346,774
Total revenue	<u>1,318,641</u>	<u>1,170,026</u>	<u>971,191</u>
Operating expenses:			
Costs of services	164,977	159,058	133,189
Cost of inventory sold	480,839	374,339	306,498
Selling, general and administrative expenses	382,389	382,676	323,270
Acquisition-related costs	777	5,093	38,272
Depreciation and amortization expenses	70,501	66,614	52,694
Gain on disposition of property, plant and equipment	(1,107)	(2,731)	(1,656)
Impairment loss	—	—	8,911
Foreign exchange (gain) loss	(2,937)	(212)	2,559
Total operating expenses	<u>1,095,439</u>	<u>984,837</u>	<u>863,737</u>
Operating income	<u>223,202</u>	<u>185,189</u>	<u>107,454</u>
Interest expense	(41,277)	(44,527)	(38,291)
Other income, net	8,838	11,850	8,231
Income before income taxes	<u>190,763</u>	<u>152,512</u>	<u>77,394</u>
Income tax expense (recovery):			
Current income tax	32,797	24,767	19,356
Deferred income tax	8,826	6,239	(17,268)
	<u>41,623</u>	<u>31,006</u>	<u>2,088</u>
Net income	<u>\$ 149,140</u>	<u>\$ 121,506</u>	<u>\$ 75,306</u>
Net income attributable to:			
Stockholders	\$ 149,039	\$ 121,479	\$ 75,027
Non-controlling interests	101	27	279
Net income	<u>\$ 149,140</u>	<u>\$ 121,506</u>	<u>\$ 75,306</u>
Earnings per share attributable to stockholders:			
Basic	\$ 1.37	\$ 1.12	\$ 0.70
Diluted	\$ 1.36	\$ 1.11	\$ 0.69
Weighted average number of shares outstanding:			
Basic	108,519,739	108,063,349	107,044,348
Diluted	<u>109,759,123</u>	<u>109,388,236</u>	<u>108,113,151</u>

See accompanying notes to the consolidated financial statements.

**Consolidated Statements of Comprehensive Income**  
(Expressed in thousands of United States dollars)

Year ended December 31,	2019	2018	2017
Net income	\$ 149,140	\$ 121,506	\$ 75,306
Other comprehensive income (loss), net of income tax:			
Foreign currency translation adjustment	<u>(2,836)</u>	<u>(13,792)</u>	<u>24,670</u>
Total comprehensive income	<u>\$ 146,304</u>	<u>\$ 107,714</u>	<u>\$ 99,976</u>
Total comprehensive income attributable to:			
Stockholders	\$ 146,217	\$ 107,716	\$ 99,639
Non-controlling interests	<u>87</u>	<u>(2)</u>	<u>337</u>
	<u>\$ 146,304</u>	<u>\$ 107,714</u>	<u>\$ 99,976</u>

See accompanying notes to the consolidated financial statements.

## Consolidated Balance Sheets

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

As at December 31,	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 359,671	\$ 237,744
Restricted cash	60,585	67,823
Trade and other receivables	137,402	129,257
Inventory	64,956	113,294
Other current assets	50,160	49,055
Income taxes receivable	6,810	6,365
Total current assets	<u>679,584</u>	<u>603,538</u>
Property, plant and equipment	484,482	486,599
Other non-current assets	145,679	29,395
Intangible assets	233,380	245,622
Goodwill	672,310	671,594
Deferred tax assets	13,995	15,648
Total assets	<u>\$ 2,229,430</u>	<u>\$ 2,052,396</u>
<b>Liabilities and Equity</b>		
Auction proceeds payable	\$ 276,188	\$ 203,503
Trade and other payables	194,279	201,255
Income taxes payable	7,809	2,312
Short-term debt	4,705	19,896
Current portion of long-term debt	18,277	13,126
Total current liabilities	<u>501,258</u>	<u>440,092</u>
Long-term debt	627,204	698,172
Other non-current liabilities	151,238	41,980
Deferred tax liabilities	42,743	35,519
Total liabilities	<u>1,322,443</u>	<u>1,215,763</u>
Commitments		
Contingencies		
Contingently redeemable performance share units	—	923
Stockholders' equity:		
Share capital:		
Common stock; no par value, unlimited shares authorized, issued and outstanding shares: 109,337,781 (December 31, 2018: 108,682,030)	194,771	181,780
Additional paid-in capital	52,110	56,885
Retained earnings	714,051	648,255
Accumulated other comprehensive loss	(59,099)	(56,277)
Stockholders' equity	<u>901,833</u>	<u>830,643</u>
Non-controlling interest	5,154	5,067
Total stockholders' equity	<u>906,987</u>	<u>835,710</u>
Total liabilities and equity	<u>\$ 2,229,430</u>	<u>\$ 2,052,396</u>

See accompanying notes to the consolidated financial statements.

**Consolidated Statements of Changes in Equity**  
(Expressed in thousands of United States dollars, except where noted)

	Attributable to stockholders						Non-controlling interest ("NCI")	Total equity	Contingently redeemable performance share units ("PSUs")
	Common stock		Additional paid-in capital ("APIC")	Retained earnings	Accumulated other comprehensive loss				
	Number of shares	Amount							
Balance, December 31, 2016	106,822,001	\$ 125,474	\$ 27,638	\$ 601,071	\$ (67,126)	\$ 4,773	\$ 691,830	\$ 3,950	
Net income	—	—	—	75,027	—	279	75,306	—	
Other comprehensive income	—	—	—	—	24,612	58	24,670	—	
	—	—	—	75,027	24,612	337	99,976	—	
Change in value of contingently redeemable NCI	—	—	—	—	—	—	—	—	
Stock option exercises	444,571	13,017	(3,081)	—	—	—	9,936	—	
Stock option compensation expense	—	—	13,700	—	—	—	13,700	—	
Assumption of stock options on acquisition of IronPlanet	—	—	2,330	—	—	—	2,330	—	
Settlement of equity-classified PSUs	3,211	91	—	—	—	—	91	(172)	
Modification of PSUs	—	—	—	(382)	—	—	(382)	1,803	
Equity-classified share units expense	—	—	340	—	—	—	340	3,189	
Equity-classified share units dividend equivalents	—	—	78	(227)	—	—	(149)	149	
Change in value of contingently redeemable equity-classified PSUs	—	—	—	(95)	—	—	(95)	95	
Cash dividends paid	—	—	—	(72,785)	—	(41)	(72,826)	—	
Balance, December 31, 2017	107,269,783	\$ 138,582	\$ 41,005	\$ 602,609	\$ (42,514)	\$ 5,069	\$ 744,751	\$ 9,014	
Net income	—	—	—	121,479	—	27	121,506	—	
Other comprehensive income	—	—	—	—	(13,763)	(29)	(13,792)	—	
	—	—	—	121,479	(13,763)	(2)	107,714	—	
Stock option exercises	1,235,154	37,308	(8,784)	—	—	—	28,524	—	
Issuance of common stock related to vesting of share units	177,093	5,890	(1,662)	(326)	—	—	3,902	(7,803)	
Stock option compensation expense	—	—	8,252	—	—	—	8,252	—	
Modification of PSUs	—	—	12,365	958	—	—	13,323	(6,622)	
Equity-classified share units expense	—	—	5,384	—	—	—	5,384	5,872	
Equity-classified share units dividend equivalents	—	—	325	(678)	—	—	(353)	353	
Change in fair value of contingently redeemable PSUs	—	—	—	(109)	—	—	(109)	109	
Cash dividends paid	—	—	—	(75,678)	—	—	(75,678)	—	
Balance, December 31, 2018	108,682,030	\$ 181,780	\$ 56,885	\$ 648,255	\$ (56,277)	\$ 5,067	\$ 835,710	\$ 923	
Net income	—	—	—	149,039	—	101	149,140	—	
Other comprehensive loss	—	—	—	—	(2,822)	(14)	(2,836)	—	
	—	—	—	149,039	(2,822)	87	146,304	—	
Stock option exercises	1,672,022	49,117	(8,023)	—	—	—	41,094	—	
Issuance of common stock related to vesting of share units	207,403	5,886	(10,064)	1	—	—	(4,177)	(1,083)	
Stock option compensation expense	—	—	4,697	—	—	—	4,697	—	
Equity-classified share units expense	—	—	7,933	—	—	—	7,933	114	
Equity-classified share units dividend equivalents	—	—	682	(709)	—	—	(27)	46	
Cash dividends paid	—	—	—	(82,535)	—	—	(82,535)	—	
Shares repurchased	(1,223,674)	(42,012)	—	—	—	—	(42,012)	—	
Balance, December 31, 2019	109,337,781	\$ 194,771	\$ 52,110	\$ 714,051	\$ (59,099)	\$ 5,154	\$ 906,987	\$ —	

See accompanying notes to the consolidated financial statements.

**Consolidated Statements of Cash Flows**  
(Expressed in thousands of United States dollars)

<b>Year ended December 31,</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cash provided by (used in):			
Operating activities:			
Net income	\$ 149,140	\$ 121,506	\$ 75,306
Adjustments for items not affecting cash:			
Depreciation and amortization expenses	70,501	66,614	52,694
Impairment loss	—	—	8,911
Stock option compensation expense	4,697	8,252	13,700
Equity-classified share units expense	8,047	11,256	3,529
Deferred income tax expense (recovery)	8,826	6,239	(17,268)
Unrealized foreign exchange (gain) loss	(3,058)	951	254
Gain on disposition of property, plant and equipment	(1,107)	(2,731)	(1,656)
Amortization of debt issuance costs	4,086	4,995	3,056
Gain on disposition of equity investment	—	(4,935)	—
Amortization of right-of-use assets	12,280	—	—
Other, net	2,779	(2,317)	(1,237)
Net changes in operating assets and liabilities	76,602	(65,550)	10,279
Net cash provided by operating activities	<u>332,793</u>	<u>144,280</u>	<u>147,568</u>
Investing activities:			
Acquisition of IronPlanet, net of cash acquired	—	—	(675,851)
Property, plant and equipment additions	(13,589)	(16,860)	(10,812)
Intangible asset additions	(27,415)	(26,152)	(28,584)
Proceeds on disposition of property, plant and equipment	5,929	10,586	4,985
Proceeds on disposal of equity investment	—	6,147	—
Other, net	(982)	(4,674)	(692)
Net cash used in investing activities	<u>(36,057)</u>	<u>(30,953)</u>	<u>(710,954)</u>
Financing activities:			
Share repurchase	(42,012)	—	—
Dividends paid to stockholders	(82,535)	(75,678)	(72,785)
Dividends paid to NCI	—	—	(41)
Issuances of share capital	41,094	28,524	9,936
Payment of withholding taxes on issuance of shares	(5,260)	(3,901)	—
Proceeds from short-term debt	13,169	19,715	6,971
Repayment of short-term debt	(28,684)	(6,628)	(24,479)
Proceeds from long-term debt	—	—	325,000
Repayment of long-term debt	(76,282)	(91,013)	(108,985)
Debt issue costs	—	—	(12,624)
Repayment of finance lease obligations	(6,708)	(3,950)	(2,322)
Other, net	—	(1,176)	(1,408)
Net cash provided by (used in) financing activities	<u>(187,218)</u>	<u>(134,107)</u>	<u>119,263</u>
Effect of changes in foreign currency rates on cash, cash equivalents, and restricted cash	<u>5,171</u>	<u>(4,769)</u>	<u>17,150</u>
Increase (decrease)	114,689	(25,549)	(426,973)
Beginning of period	305,567	331,116	758,089
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 420,256</u>	<u>\$ 305,567</u>	<u>\$ 331,116</u>

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)

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### 1. General information

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

### 2. Significant accounting policies

#### (a) Basis of preparation

These financial statements have been prepared in accordance with United States generally accepted accounting principles (“US GAAP”) and the following accounting policies have been consistently applied in the preparation of the consolidated financial statements.

#### (b) Basis of consolidation

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

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 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:

- Service revenue, including the following:
  - i. Revenue from auction and marketplace (“A&M”) activities, including commissions earned at our live auctions, online marketplaces, and private brokerage services where we act as an agent for consignors of equipment and other assets, and various auction-related fees, including listing and buyer transaction fees; and
  - ii. Other services revenue, including revenue from listing services, refurbishment, logistical services, financing, appraisal fees and other ancillary service fees; and

## Notes to the Consolidated Financial Statements

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

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### 2. Significant accounting policies (continued)

#### (c) Revenue recognition (continued)

- Inventory sales revenue as part of A&M activities

The Company recognizes revenue when control of the promised goods or services is transferred to our customers, or upon completion of the performance obligation, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For live event-based auctions or online auctions, revenue is recognized when the auction 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.

#### *Service revenues*

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

The Company accepts equipment and other assets on consignment stimulating buyer interest through professional marketing techniques and matches sellers (also known as consignors) to buyers through the auction or private sale process. Prior to offering an item for sale on its online marketplaces, the Company also performs inspections.

Following the sale of the item, the Company invoices the buyer for the purchase price of the asset, taxes, and, if applicable, the buyer transaction fee, collects payment from the buyer, and remits the proceeds to the seller, net of the seller commissions, applicable taxes, and applicable fees. Commissions are calculated as a percentage of the hammer price of the property sold at auction. Fees are also charged to sellers for listing and inspecting equipment. Other revenue earned in the process of conducting the Company's auctions include administrative, documentation, and advertising fees.

On the fall of the auctioneer's hammer, the highest bidder becomes legally obligated to pay the full purchase price, which is the hammer price of the property purchased and the seller is legally obligated to relinquish the property in exchange for the hammer price less any seller's commissions. Commission and fee revenue are recognized on the date of the auction sale upon the fall of the auctioneer's hammer.

Under the standard terms and conditions of its auction sales, the Company is not obligated to pay a consignor for property that has not been paid for by the buyer, provided the property has not been released to the buyer. If the buyer defaults on its payment obligation, also referred to as a collapsed sale, the sale is cancelled in the period in which the determination is made, and the property is returned to the consignor or placed in a later event-based or online auction. Historically cancelled sales have not been material.

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

## Notes to the Consolidated Financial Statements

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

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### 2. Significant accounting policies (continued)

#### (c) Revenue recognition (continued)

##### *Service revenues (continued)*

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

Commission revenue are recorded net of commissions owed to third parties, which are principally the result of situations when the commission is shared with a consignor in an auction guarantee risk and reward sharing arrangement.

Underwritten commission contracts can take the form of guarantee 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.

Other services revenue also includes fees for refurbishment, logistical services, financing, appraisal fees and other ancillary service fees. Fees are recognized in the period in which the service is provided to the customer.

##### *Inventory sales revenue*

Underwritten commission contracts can take the form of inventory contracts. Revenue related to inventory contracts is 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. In its role as auctioneer, the Company auctions its inventory to equipment buyers through the auction process. Following the sale of the item, the Company invoices the buyer for the purchase price of the asset, taxes, and, if applicable, the buyer transaction fee, and collects payment from the buyer.

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. Title to the property is transferred in exchange for the hammer price, and if applicable, the buyer transaction fee plus applicable taxes.

#### (d) Costs of services

Costs of services are comprised of expenses incurred in direct relation to conducting auctions ("direct expenses"), earning online marketplace revenue, and earning other fee revenue. Direct expenses include direct labour, buildings and facilities charges, travel, advertising and promotion costs and fees paid to unrelated third parties who introduce the Company to equipment sellers who sell property at the Company's auctions and marketplaces.

## Notes to the Consolidated Financial Statements

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

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### 2. Significant accounting policies (continued)

#### (d) Costs of services (continued)

Costs of services incurred to earn online marketplace revenue in addition to the costs listed above also include inspection costs. Inspections are generally performed at the seller's physical location. The cost of inspections includes payroll costs and related benefits for the Company's employees that perform and manage field inspection services, the related inspection report preparation and quality assurance costs, fees paid to contractors who perform field inspections, related travel and incidental costs for the Company's inspection service organization, and office and occupancy costs for its inspection services personnel. Costs of earning online marketplace revenue also include costs for the Company's customer support, online marketplace operations, logistics, title and lien investigation functions.

Costs of services incurred in earning other fee revenue include ancillary and logistical service expenses, direct labour (including commissions on sales), software maintenance fees, and materials. Costs of services exclude depreciation and amortization expenses.

#### (e) Cost of inventory sold

Cost of inventory sold includes the purchase price of assets sold for the Company's own account and is determined using a specific identification basis.

#### (f) 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*

##### *Share unit plans*

The Company has a senior executive performance share unit ("PSU") plan and an employee PSU plan that provides for the award of PSUs to certain senior executives and employees, respectively, of the Company. The Company has the option to settle certain share unit awards in cash or shares and expects to settle them in shares. The cost of PSUs granted is measured at the fair value of the underlying PSUs at the grant date. PSUs vest based on the passage of time and achievement of performance criteria.

The Company also has a senior executive restricted share unit ("RSU") plan and an employee RSU plan that provides for the award of RSUs to certain senior executives and employees, respectively, of the Company. The Company has the option to settle certain share unit awards in cash or shares and expects to settle all grants on and after 2017 in shares. The cost of RSUs granted is measured at the fair value based on the fair value of the Company's common shares at the grant date. RSUs vest based on the passage of time and include restrictions related to employment.

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

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### 2. Significant accounting policies (continued)

#### (f) Share-based payments (continued)

##### *Equity-classified share-based payments (continued)*

###### *Stock option plans*

The Company has three stock option compensation plans that provide for the award of stock options to selected employees, directors and officers of the Company. The cost of options granted is measured at the fair value of the underlying option at the grant date using the Black-Scholes option pricing model. The fair value of options expected to vest under these plans is expensed over the respective remaining service period of the individual awards, on an accelerated recognition basis, with the corresponding increase to APIC recorded in equity. Upon exercise, any consideration paid on exercise of the stock options and amounts fully amortized in APIC are credited to the common shares.

###### *Liability-classified share-based payments*

The Company maintains other share unit compensation plans that vest over a period of up to three 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 based on the average price of the Company's common shares 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 24. The fair value of the awards is expensed over the respective vesting period of the individual awards with recognition of a corresponding liability. Changes in fair value after vesting are recognized through compensation expense. Compensation expense reflects estimates of the number of instruments expected to vest.

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

#### (g) Leases

The Company determines if an arrangement is a lease at inception. The Company may have lease agreements with lease and non-lease components, which are generally accounted for separately. Additionally, for certain vehicle and equipment leases, management applies a portfolio approach to account for the right-of-use ("ROU") assets and liabilities for assets leased with similar lease terms.

##### *Operating leases*

Operating leases are included in other non-current assets, trade and other payables, and other non-current liabilities in our consolidated balance sheets if the initial lease term is greater than 12 months. For leases with an initial term of 12 months or less the Company recognizes those lease payments on a straight-line basis over the lease term.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, management uses the incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Management uses the implicit rate when readily determinable. The Company includes lease payments for renewal or termination options in its determination of lease term, ROU asset, and lease liability when it is reasonably certain that the Company will exercise these options. Lease expense for lease payments is recognized on a straight-line basis over the lease term and are included in costs of services and selling, general and administrative ("SG&A") expenses.

## Notes to the Consolidated Financial Statements

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

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### 2. Significant accounting policies (continued)

#### (g) Leases (continued)

##### *Finance leases*

Finance lease ROU assets are included in property, plant and equipment, trade and other payables, and other non-current liabilities in our consolidated balance sheets.

Finance lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, management uses the incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Management uses the implicit rate when readily determinable. The Company includes lease payments for renewal, purchase options, or termination options in its determination of lease term, ROU asset, and lease liability when it is reasonably certain that the Company will exercise these options. Finance lease ROU assets are generally amortized over the lease term and are included in depreciation expense. The interest on the finance lease liabilities is included in interest expense.

#### (h) 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.

#### (i) 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.

## Notes to the Consolidated Financial Statements

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

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### 2. Significant accounting policies (continued)

#### (j) 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.

#### (k) Restricted cash

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

#### (l) Trade and other receivables

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

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

#### (m) Inventories

Inventory consists of equipment and other assets purchased for resale in an upcoming live on site auction or online marketplace event. The Company typically purchases inventory for resale through a competitive process where the consignor or vendor has determined this to be the preferred method of disposition through the auction process. In addition, certain jurisdictions require auctioneers to hold title to assets and facilitate title transfer on sale. Inventory is valued at the lower of cost and net realizable value where net realizable value represents the expected sale price upon disposition less make-ready costs and the costs of disposal and transportation. As part of its government business, the Company purchases inventory for resale as part of its commitment to purchase certain surplus government property (note 26). The significant elements of cost include the acquisition price of the inventory and make-ready costs to prepare the inventory for sale that are not selling expenses and in-bound transportation costs. Write-downs to the carrying value of inventory are recorded in cost of inventory sold on the consolidated income statement.

#### (n) Property, plant and equipment

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

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

## Notes to the Consolidated Financial Statements

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

### 2. Significant accounting policies (continued)

#### (n) Property, plant and equipment (continued)

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.

#### (o) 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.

#### (p) Intangible assets

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

## Notes to the Consolidated Financial Statements

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

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### 2. Significant accounting policies (continued)

#### (p) Intangible assets (continued)

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
Trade names and trademarks	Straight-line	3 - 15 years or indefinite-lived
Customer relationships	Straight-line	6 - 20 years
Software assets	Straight-line	3 - 7 years

Customer relationships includes relationships with buyers and sellers.

#### (q) Impairment of long-lived and indefinite-lived assets

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

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

#### (r) Goodwill

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

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

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

## Notes to the Consolidated Financial Statements

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

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### 2. Significant accounting policies (continued)

#### (s) 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.

#### (t) Taxes

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

##### *Current tax*

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

##### *Deferred tax*

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

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

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

#### (u) 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 comparable and discounted cash flow projections.

## Notes to the Consolidated Financial Statements

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

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### 2. Significant accounting policies (continued)

#### (v) Earnings per share

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

#### (w) 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.

#### (x) Advertising costs

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

#### (y) New and amended accounting standards

Effective January 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842). The Company adopted the new standard utilizing the “optional transition method”, which permits the Company to apply the new lease standard at the adoption date. As the optional transition method is being utilized, the Company’s reporting for the comparative periods presented in the financial statements in which it adopts Topic 842 will continue to be reported pursuant to Topic 840.

On adoption, the Company elected to utilize the package of practical expedients permitted within the new standard, which among other things, allows the Company to carryforward the historical lease classification. In addition, the Company elected to utilize the hindsight practical expedient to determine the reasonably certain lease term for existing leases. While lease classification will remain unchanged, hindsight will result in generally longer accounting lease terms where the Company has determined that it is reasonably certain to exercise certain renewal options and thereby increasing the useful lives of the corresponding leasehold improvements. The Company also elected not to recognize the lease assets and liabilities for leases with an initial term of 12 months or less and will recognize those lease payments on a straight-line basis over the lease term.

On adoption of the new standard the Company recognized ROU assets of \$103,897,000 with a corresponding increase in operating lease liability. Offsetting the increase in ROU assets recognized was the reclassification of prepaid rent and deferred rent liabilities to ROU assets of \$5,752,000. There was no impact on retained earnings or cash flows.

The adoption of the standard had no impact on our debt-covenant compliance under our current agreements.

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which replaces the ‘incurred loss methodology’ credit impairment model with a new forward-looking “methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.” To clarify or address stakeholders’ specific issues about certain aspects of ASU 2016-13, the FASB issued ASU 2019-04, *Codification Improvement to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*.

The Company will adopt the new standard prescribed by ASU 2016-13 and ASU 2019-04 effective January 1, 2020. The Company is currently updating processes and controls in preparation of the adoption. We do not expect the adoption of the new standard to have a material effect on our consolidated financial results.

## Notes to the Consolidated Financial Statements

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

### 3. Significant judgments, estimates and assumptions

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

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

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

### 4. Segmented information

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

- Auctions and Marketplaces – This is the Company's only reportable segment, which consists of the Company's live on site auctions, its online auctions and marketplaces, and its brokerage service;
- Other includes the results of Ritchie Bros. Financial Services ("RBFS"), Mascus online services, and the results from various value-added services and make-ready activities, including the Company's equipment refurbishment services, Asset Appraisal Services, and Ritchie Bros. Logistical Services.

	Year ended December 31, 2019		
	A&M	Other	Consolidated
Service revenue	\$ 678,823	\$ 125,201	\$ 804,024
Inventory sales revenue	514,617	—	514,617
Total revenue	\$ 1,193,440	\$ 125,201	\$ 1,318,641
Costs of services	99,821	65,156	164,977
Cost of inventory sold	480,839	—	480,839
Selling, General and Administration expenses ("SG&A")	358,016	24,373	382,389
Segment profit	\$ 254,764	\$ 35,672	\$ 290,436
Acquisition-related costs			777
Depreciation and amortization expenses ("D&A")			70,501
Gain on disposition of property, plant and equipment ("PPE")			(1,107)
Foreign exchange gain			(2,937)
Operating income			\$ 223,202
Interest expense			(41,277)
Other income, net			8,838
Income tax expense			(41,623)
Net income			\$ 149,140

## 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, 2018		
	A&M	Other	Consolidated
Service revenue	\$ 626,007	\$ 123,508	\$ 749,515
Inventory sales revenue	420,511	—	420,511
Total revenue	\$ 1,046,518	\$ 123,508	\$ 1,170,026
Costs of services	87,430	71,628	159,058
Cost of inventory sold	374,339	—	374,339
SG&A expenses	363,549	19,127	382,676
Segment profit	\$ 221,200	\$ 32,753	\$ 253,953
Acquisition-related costs			5,093
D&A expenses			66,614
Gain on disposition of PPE			(2,731)
Foreign exchange gain			(212)
Operating income			\$ 185,189
Interest expense			(44,527)
Other income, net			11,850
Income tax expense			(31,006)
Net income			\$ 121,506

	Year ended December 31, 2017		
	A&M	Other	Consolidated
Service revenue	\$ 524,023	\$ 100,394	\$ 624,417
Inventory sales revenue	346,774	—	346,774
Total revenue	\$ 870,797	\$ 100,394	\$ 971,191
Costs of services	75,685	57,504	133,189
Cost of inventory sold	306,498	—	306,498
SG&A expenses	308,873	14,397	323,270
Impairment loss	8,911	—	8,911
Segment profit	\$ 170,830	\$ 28,493	\$ 199,323
Acquisition-related costs			38,272
D&A expenses			52,694
Gain on disposition of PPE			(1,656)
Foreign exchange loss			2,559
Operating income			\$ 107,454
Interest expense			(38,291)
Other income, net			8,231
Income tax expense			(2,088)
Net income			\$ 75,306

The carrying value of goodwill of \$652,243,000 has been allocated to A&M and \$20,067,000 has been allocated to Other in relation to the Mascus acquisition. As in prior periods, the CODM does not evaluate the performance of its operating segments based on segment assets and liabilities, nor does the Company classify liabilities on a segmented basis.

As at December 31,	2019	2018
A&M	\$ 652,243	\$ 651,359
Other	20,067	20,235
Total Goodwill	\$ 672,310	\$ 671,594

## Notes to the Consolidated Financial Statements

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

### 4. Segmented information (continued)

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

	United States	Canada	Europe	Other	Consolidated
Total revenue for the year ended:					
December 31, 2019	\$ 743,793	\$ 247,737	\$ 173,054	\$ 154,057	\$ 1,318,641
December 31, 2018	548,695	284,989	180,817	155,525	1,170,026
December 31, 2017	452,599	245,106	127,706	145,780	971,191

  

	United States	Canada	Europe	Other	Consolidated
Property, plant and equipment:					
December 31, 2019	\$ 256,159	\$ 106,922	\$ 73,991	\$ 47,410	\$ 484,482
December 31, 2018	260,489	100,983	77,496	47,631	486,599

### 5. Revenues

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

	2019	2018	2017
Service revenue:			
Commissions	\$ 431,781	\$ 420,160	\$ 394,397
Fees	372,243	329,355	230,020
	804,024	749,515	624,417
Inventory sales revenue	514,617	420,511	346,774
	<u>\$ 1,318,641</u>	<u>\$ 1,170,026</u>	<u>\$ 971,191</u>

### 6. Operating expenses

#### Costs of services

Year ended December 31,	2019	2018	2017
Ancillary and logistical service expenses	\$ 59,252	\$ 66,576	\$ 54,176
Employee compensation expenses	50,093	41,391	35,440
Buildings, facilities and technology expenses	7,865	9,477	8,359
Travel, advertising and promotion expenses	31,652	27,606	23,994
Other costs of services	16,115	14,008	11,220
	<u>\$ 164,977</u>	<u>\$ 159,058</u>	<u>\$ 133,189</u>

#### SG&A expenses

Year ended December 31,	2019	2018	2017
Employee compensation expenses	\$ 246,028	\$ 249,115	\$ 208,370
Buildings, facilities and technology expenses	61,177	60,930	53,151
Travel, advertising and promotion expenses	38,248	36,728	30,440
Professional fees	15,572	16,768	13,522
Other SG&A expenses	21,364	19,135	17,787
	<u>\$ 382,389</u>	<u>\$ 382,676</u>	<u>\$ 323,270</u>

## Notes to the Consolidated Financial Statements

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

### 6. Operating expenses (continued)

#### Acquisition-related costs

Acquisition-related costs consist of operating expenses directly incurred as part of a business combination, due diligence and integration planning related to the IronPlanet acquisition (note 29), and continuing employment costs that are recognized separately from our business combinations.

Year ended December 31,	2019	2018	2017
<b>IronPlanet:</b>			
Other acquisition-related costs	\$ 82	\$ 2,944	\$ 34,653
<b>Other acquisitions:</b>			
Continuing employment costs	128	2,091	3,418
Other acquisition-related costs	567	58	201
	<u>\$ 777</u>	<u>\$ 5,093</u>	<u>\$ 38,272</u>

#### Depreciation and amortization expenses

Year ended December 31,	2019	2018	2017
Depreciation expense	\$ 29,112	\$ 29,021	\$ 28,337
Amortization expense	41,389	37,593	24,357
	<u>\$ 70,501</u>	<u>\$ 66,614</u>	<u>\$ 52,694</u>

During the year ended December 31, 2019, depreciation expense of \$410,000 (2018: \$494,000; 2017: \$1,207,000) and amortization expense of \$27,944,000 (2018: \$18,996,000; 2017: \$11,662,000) were recorded relating to software.

### 7. Impairment Loss

#### Long-lived asset impairment

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

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

### 8. Other income

For the period ended December 31, 2019, there were no significant items recorded in other income. In 2018, other income included a gain of \$4,935,000 recognized on the disposition of one of the Company's equity accounted for investments. The Company received net proceeds of \$6,147,000 on closing and is entitled to receive up to \$1,020,000 upon the satisfaction of certain escrow release conditions over a period of five years. The first escrow tranche was released during the period ended December 31, 2019. Additionally, the Company was entitled to receive up to \$1,700,000 of contingent consideration upon the achievement of certain financial targets for the period from January 1, 2019 to December 31, 2019. The Company has not recognized any contingent consideration.

## Notes to the Consolidated Financial Statements

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

### 9. Income taxes

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

Year ended December 31,	2019	2018	2017
Earnings before income tax	\$ 190,763	\$ 152,512	\$ 77,394
Statutory federal and provincial tax rate in Canada	27.00 %	27.00 %	26.00 %
Expected income tax expense	\$ 51,506	\$ 41,178	\$ 20,122
Non-deductible expenses	3,705	4,810	5,668
Adjustment to prior year provision to statutory tax returns	4	1,323	(528)
Changes in the valuation of deferred tax assets	(550)	(771)	(1,089)
Different tax rates of subsidiaries operating in foreign jurisdictions	(11,818)	(17,145)	(12,269)
U.S. tax reform impacts	6,949	4,899	(9,734)
Change in enacted tax rates	(1,016)	93	(229)
Change in estimate of deductibility of stock options	—	—	(1,557)
Unrecognized tax benefits	(2,347)	(1,800)	3,291
Benefits of deductible stock options vested and exercised	(1,780)	(2,434)	(1,359)
Other	(3,030)	853	(228)
	<u>\$ 41,623</u>	<u>\$ 31,006</u>	<u>\$ 2,088</u>

The income tax expense (recovery) consists of:

Year ended December 31,	2019	2018	2017
Canadian:			
Current tax expense	\$ 19,752	\$ 13,209	\$ 14,245
Deferred tax expense (recovery)	3,346	3,958	(10,192)
Foreign:			
Current tax expense before application of operating loss carryforwards	24,815	19,851	8,987
Tax benefit of operating loss carryforwards	(11,770)	(8,293)	(3,876)
Total foreign current tax expense	13,045	11,558	5,111
Deferred tax expense before adjustment			
to opening valuation allowance	5,727	2,386	(6,317)
Adjustment to opening valuation allowance	(247)	(105)	(759)
Total foreign deferred tax expense (recovery)	5,480	2,281	(7,076)
	<u>\$ 41,623</u>	<u>\$ 31,006</u>	<u>\$ 2,088</u>

The foreign provision for income taxes is based on foreign pre-tax earnings of \$108,714,000, \$102,824,000, and \$64,252,000, in 2019, 2018, and 2017 respectively. The Company's consolidated financial statements provide for any related tax liability on undistributed earnings that we intend to repatriate in the foreseeable future. As of December 31, 2019, income taxes have not been provided on a cumulative total of \$483,430,000 of such earnings. The amount of unrecognized deferred tax liability related to these temporary differences is estimated to be approximately \$10,506,000. Earnings retained by subsidiaries and equity-accounted investments amount to approximately \$500,430,000 (2018: 484,510,000; 2017: 469,000,000). 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.

## Notes to the Consolidated Financial Statements

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

### 9. 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,	2019	2018
Deferred tax assets:		
Working capital	\$ 13,307	\$ 4,703
Property, plant and equipment	5,579	6,385
Share-based compensation	5,973	4,923
Tax losses and tax credit carryforwards	33,248	48,881
Lease liabilities	29,523	2,578
Other	3,088	12,266
	<u>90,718</u>	<u>79,736</u>
Deferred tax liabilities:		
Property, plant and equipment	\$ (14,783)	\$ (10,918)
Goodwill	(8,499)	(8,390)
Intangible assets	(50,531)	(54,810)
Right-of-use assets	(25,244)	—
Other	(7,496)	(12,051)
	<u>(106,553)</u>	<u>(86,169)</u>
Net deferred tax assets (liabilities)	<u>\$ (15,835)</u>	<u>\$ (6,433)</u>
Valuation allowance	(12,913)	(13,438)
	<u>\$ (28,748)</u>	<u>\$ (19,871)</u>

At December 31, 2019, 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:

2020	\$ 4,983
2021	3,543
2022	4,878
2023	2,964
2024 and thereafter	69,462
	<u>\$ 85,830</u>

The Company has capital loss carryforwards of approximately \$39,981,209 (2018: \$9,292,000) available to reduce future capital gains and interest deduction carryforwards of \$23,746,000 (2018: \$22,112,000), both of 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 tax credit carry forwards 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 carry forwards 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)

### 9. Income taxes (continued)

#### 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, 2019, the Company had gross unrecognized tax benefits of \$20,232,000 (2018: \$22,584,000). Of this total, \$8,854,000 (2018: \$10,556,000) 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,	2019	2018
Unrecognized tax benefits, beginning of year	\$ 22,584	\$ 25,910
Increases - tax positions taken in prior period	700	725
Decreases - tax positions taken in prior period	(57)	(107)
Increases - tax positions taken in current period	1,268	2,644
Settlement and lapse of statute of limitations	(4,364)	(4,944)
Currency translation adjustment	101	(1,644)
Unrecognized tax benefits, end of year	<u>\$ 20,232</u>	<u>\$ 22,584</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, 2019, the Company had accrued \$3,569,000 (2018: \$4,170,000) 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 2014 to 2019 remain subject to examination in Canada, the United States, Luxembourg, and the Netherlands.

### 10. Earnings per share attributable to stockholders

Basic earnings per share ("EPS") attributable to stockholders was calculated by dividing the net income attributable to stockholders by the weighted average ("WA") number of common shares outstanding during the period. Diluted EPS attributable to stockholders was calculated by dividing the net income attributable to stockholders by the WA number of shares of common stock outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include unvested PSUs, unvested RSUs, and outstanding stock options. The dilutive effect of potentially dilutive securities is reflected in diluted EPS by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

Year ended December 31, 2019	Net income attributable to stockholders	WA number of shares	Per share amount
Basic	\$ 149,039	108,519,739	\$ 1.37
Effect of dilutive securities:			
Share units	—	458,763	—
Stock options	—	780,621	(0.01)
Diluted	<u>\$ 149,039</u>	<u>109,759,123</u>	<u>\$ 1.36</u>

## 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 (continued)

Year ended December 31, 2018	Net income attributable to stockholders	WA number of shares	Per share amount
Basic	\$ 121,479	108,063,349	\$ 1.12
Effect of dilutive securities:			
Share units	—	459,503	—
Stock options	—	865,384	(0.01)
Diluted	\$ 121,479	109,388,236	\$ 1.11
Year ended December 31, 2017			
Basic	\$ 75,027	107,044,348	\$ 0.70
Effect of dilutive securities:			
Share units	(152)	353,880	—
Stock options	—	714,923	(0.01)
Diluted	\$ 74,875	108,113,151	\$ 0.69

### 11. Supplemental cash flow information

Year ended December 31,	2019	2018	2017
Trade and other receivables	\$ (8,611)	\$ (43,341)	\$ (19,161)
Inventory	44,633	(77,292)	(8,557)
Advances against auction contracts	2,766	(8,266)	3,246
Prepaid expenses and deposits	(3,403)	646	1,178
Income taxes receivable	(445)	13,053	(6,067)
Auction proceeds payable	69,382	8,768	25,783
Trade and other payables	(21,296)	39,531	21,854
Income taxes payable	5,812	1,954	(3,986)
Share unit liabilities	—	1,070	(5,421)
Operating lease obligation	(13,404)	—	—
Other	1,168	(1,673)	1,410
Net changes in operating assets and liabilities	\$ 76,602	\$ (65,550)	\$ 10,279

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 \$35,075,000 for the year ended December 31, 2019 (2018: \$32,426,000; 2017: \$34,436,000).

Year ended December 31,	2019	2018	2017
Interest paid, net of interest capitalized	\$ 37,046	\$ 39,429	\$ 23,360
Interest received	3,802	2,888	3,196
Net income taxes paid	26,699	10,352	28,281
Non-cash purchase of property, plant and equipment under capital lease	15,282	8,968	8,820
Non-cash right of use assets obtained in exchange for new lease obligations	\$ 29,117	\$ —	\$ —
Cash and cash equivalents	\$ 359,671	\$ 237,744	\$ 267,910
Restricted cash	60,585	67,823	63,206
Cash, cash equivalents, and restricted cash	\$ 420,256	\$ 305,567	\$ 331,116

## Notes to the Consolidated Financial Statements

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

### 12. Fair value measurement

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

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

	Category	December 31, 2019		December 31, 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
<i>Fair values disclosed:</i>					
Cash and cash equivalents	Level 1	\$ 359,671	\$ 359,671	\$ 237,744	\$ 237,744
Restricted cash	Level 1	60,585	60,585	67,823	67,823
Short-term debt	Level 2	4,705	4,705	19,896	19,896
Long-term debt					
Senior unsecured notes	Level 1	490,933	520,625	489,136	487,813
Term loans	Level 2	154,548	155,355	222,162	224,582

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

### 13. Trade and other receivables

As at December 31,	2019	2018
Trade receivables	\$ 121,752	\$ 112,680
Consumption taxes receivable	12,108	16,099
Other receivables	3,542	478
	<u>\$ 137,402</u>	<u>\$ 129,257</u>

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

As at December 31, 2019, there were \$5,225,000 of impaired receivables that have been provided for (December 31, 2018: \$5,942,000).

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. Specific consideration was given to the valuation of the surplus government inventory. The Company determined the valuation provision to be insignificant.

During the year ended December 31, 2019, the Company recorded an inventory write-down of \$4,215,000 (2018: \$1,011,000; 2017: \$834,000).

### 15. Other current assets

As at December 31,	2019	2018
Advances against auction contracts	\$ 12,925	\$ 15,558
Assets held for sale	15,051	15,051
Prepaid expenses and deposits	22,184	18,446
	<u>\$ 50,160</u>	<u>\$ 49,055</u>

#### *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.

#### *Assets held for sale*

Balance, December 31, 2017	\$ 584
Site preparation costs	—
Reclassified from property, plant and equipment	20,610
Disposal	(6,143)
Balance, December 31, 2018	<u>15,051</u>
Reclassified from (to) property, plant and equipment	4,071
Disposal	(4,071)
Balance, December 31, 2019	<u>\$ 15,051</u>

As at December 31, 2019, the Company's assets held for sale consisted of two excess auction sites located in the United States. Management made the strategic decision to sell these properties to maximize the Company's return on invested capital. The estimated sales proceeds are expected to be in excess of the current book value. The properties have been actively marketed for sale, and management expects the sales to be completed within 12 months of December 31, 2019. These properties belong to the A&M reportable segment.

As at December 31, 2018, the Company's assets held for sale consisted of excess auction sites located in the United States. Management made the strategic decision to sell this excess acreage to maximize the Company's return on invested capital.

During the year ended December 31, 2019, the Company sold excess auction site acreage in Nashville, United States for net proceeds of \$4,642,000 resulting in a gain of \$571,000 (2018: \$1,439,000 gain related to the sale of property located in Prince George, Canada and Albuquerque, United States; 2017: \$602,000 gain related to the sale of property in Orlando, United States, and Truro, Canada).

## Notes to the Consolidated Financial Statements

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

### 16. Property, plant and equipment

<b>As at December 31, 2019</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Land and improvements	\$ 361,623	\$ (77,015)	\$ 284,608
Buildings	252,774	(115,423)	137,351
Yard and automotive equipment	66,871	(40,686)	26,185
Computer software and equipment	80,756	(68,431)	12,325
Office equipment	31,760	(21,776)	9,984
Leasehold improvements	19,756	(16,541)	3,215
Assets under development	10,814	—	10,814
	<u>\$ 824,354</u>	<u>\$ (339,872)</u>	<u>\$ 484,482</u>

  

<b>As at December 31, 2018</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Land and improvements	\$ 362,781	\$ (72,547)	\$ 290,234
Buildings	252,182	(106,959)	145,223
Yard and automotive equipment	57,983	(36,640)	21,343
Computer software and equipment	70,623	(60,258)	10,365
Office equipment	28,490	(19,582)	8,908
Leasehold improvements	19,735	(16,240)	3,495
Assets under development	7,031	—	7,031
	<u>\$ 798,825</u>	<u>\$ (312,226)</u>	<u>\$ 486,599</u>

During the year ended December 31, 2019, interest of \$85,000 (2018: \$110,000; 2017: \$110,000) was capitalized to the cost of assets under development. These interest costs relating to qualifying assets are capitalized at a weighted average rate of 4.07% (2018: 4.06%; 2017: 2.97%).

Additions during the year include \$15,282,000 (2018: \$8,968,000; 2017: \$8,820,000) of property, plant and equipment under capital leases.

### 17. Other non-current assets

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Right-of-use assets	\$ 116,209	\$ —
Tax receivable	11,792	12,705
Equity-accounted investments	4,276	4,010
Deferred debt issue costs	1,403	2,017
Other	11,999	10,663
	<u>\$ 145,679</u>	<u>\$ 29,395</u>

#### *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.

## Notes to the Consolidated Financial Statements

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

### 17. Other non-current assets (continued)

#### Equity-accounted investments (continued)

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

	Ownership percentage	December 31, 2019	December 31, 2018
Cura Classis entities	48 %	\$ 4,276	\$ 4,010

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.

### 18. Intangible assets

As at December 31, 2019	Cost	Accumulated amortization	Net book value
Trade names and trademarks	\$ 53,319	\$ (2,028)	\$ 51,291
Customer relationships	124,865	(34,666)	90,199
Software	157,776	(78,330)	79,446
Software under development	12,444	—	12,444
	<u>\$ 348,404</u>	<u>\$ (115,024)</u>	<u>\$ 233,380</u>

As at December 31, 2018	Cost	Accumulated amortization	Net book value
Trade names and trademarks	\$ 53,409	\$ (1,201)	\$ 52,208
Customer relationships	124,986	(22,010)	102,976
Software	127,320	(48,522)	78,798
Software under development	11,640	—	11,640
	<u>\$ 317,355</u>	<u>\$ (71,733)</u>	<u>\$ 245,622</u>

During the year ended December 31, 2019, the Company recognized an impairment loss of nil (2018: nil; 2017: the Company recorded an impairment loss relating to certain software and software under development \$8,911,000) (note 7).

At December 31, 2019, a net carrying amount of \$62,589,000 (December 31, 2018: \$61,883,000) included in intangible assets was not subject to amortization. During the year ended December 31, 2019, the cost of additions was reduced by \$1,022,000 for recognition of tax credits (2018: \$1,606,000; 2017: \$888,000).

During the year ended December 31, 2019, interest of \$402,000 (2018: \$460,000; 2017: \$281,000) was capitalized to the cost of software under development. These interest costs relating to qualifying assets are capitalized at a weighted average rate of 4.01% (2018: 4.09%; 2017: 3.18%).

During the year ended December 31, 2019, the weighted average amortization period for all classes of intangible assets was 7.8 years (2018: 8.2; 2017: 7.9 years).

**Notes to the Consolidated Financial Statements**

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

**18. Intangible assets (continued)**

As at December 31, 2019, estimated annual amortization expense for the next five years ended December 31 are as follows:

2020	\$	35,539
2021		29,706
2022		23,438
2023		17,214
2024		10,139
	\$	<u>116,036</u>

**19. Goodwill**

Balance, December 31, 2017	\$	670,922
Additions		3,671
Foreign exchange movement		(2,999)
Balance, December 31, 2018	\$	671,594
Additions		93
Foreign exchange movement		623
Balance, December 31, 2019	\$	<u>672,310</u>

**20. Trade and other payables**

<u>As at December 31,</u>	<u>2019</u>	<u>2018</u>
Trade payables	\$ 72,918	\$ 93,482
Accrued liabilities	69,539	63,666
Social security and sales taxes payable	27,737	19,390
Net consumption taxes payable	12,298	13,456
Share unit liabilities	5,130	3,714
Other payables	6,657	7,547
	<u>\$ 194,279</u>	<u>\$ 201,255</u>

## Notes to the Consolidated Financial Statements

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

### 21. Debt

	Carrying amount	
	December 31, 2019	December 31, 2018
Short-term debt	\$ 4,705	\$ 19,896
Long-term debt:		
Term loans:		
Denominated in Canadian dollars, secured, bearing interest at a weighted average rate of 3.958%, due in monthly installments of interest only and quarterly installments of principal, maturing in October 2021	155,355	161,891
Denominated in United States dollars, secured, bearing interest at a weighted average rate of 3.715%, due in weekly installments of interest only and quarterly installments of principal, repaid in full in December 2019	—	62,690
Less: unamortized debt issue costs	(807)	(2,419)
Senior unsecured notes:		
Bearing interest at 5.375% due in semi-annual installments, with the full amount of principal due in January 2025	500,000	500,000
Less: unamortized debt issue costs	(9,067)	(10,864)
Total long-term debt	645,481	711,298
Total debt	\$ 650,186	\$ 731,194
Long-term debt:		
Current portion	\$ 18,277	\$ 13,126
Non-current portion	627,204	698,172
Total long-term debt	\$ 645,481	\$ 711,298

On October 27, 2016, the Company entered into a credit agreement (the “Credit Agreement”) with a syndicate of lenders.

At that time, the Credit Agreement provided the Company with:

- Multicurrency revolving facilities of up to \$675,000,000 (the “Revolving facilities”);
- A delayed draw term loan facility of up to \$325,000,000 (the “Term loans”);
- At the Company’s election and subject to certain conditions, including receipt of related commitments, incremental term loan facilities and/or increases to the Revolving facilities in an aggregate amount of up to \$50,000,000.

The Company may use the proceeds from the Revolving facilities for general corporate purposes. The amount available pursuant to the Term loans was only available to finance the acquisition of IronPlanet and is not available for other corporate purposes upon repayment of amounts borrowed under that facility. On May 31, 2017, the Company borrowed \$325,000,000 under the Term loans to finance the acquisition of IronPlanet (note 29). The Term loans amortize in equal quarterly installments in an annual amount of 5% for the first two years and 10% in the third through fifth years, with the balance payable at maturity. Prepayments are applied against future scheduled mandatory payments. Upon the closing of the acquisition the Credit Agreement became secured by the assets of the Company and certain of its subsidiaries in Canada and the United States. The Credit Agreement may become unsecured again, subject to the Company meeting specified credit rating or leverage ratio conditions.

On June 21, 2018, the Company reduced the amount available on the Company’s Revolving facilities by \$185,000,000.

At December 31, 2019, the Company’s Credit Agreement provides the Company with:

- Revolving facilities of up to \$490,000,000
- Terms loans used to finance the acquisition of IronPlanet 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 Revolving facilities in an aggregate amount of up to \$50,000,000.

## Notes to the Consolidated Financial Statements

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

### 21. Debt (continued)

For the year ended December 31, 2019, the Company made scheduled debt repayments of \$13,592,000 on the Term loans (2018: \$11,013,000). For the year ended December 31, 2019, the Company made voluntary prepayments totalling \$62,690,000 (2018: \$80,000,000) on the term loan denominated in United States dollars.

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

Short-term debt is comprised of drawings in different currencies on the Company's committed revolving credit facilities and have a weighted average interest rate of 2.3% (December 31, 2018: 2.3%).

As at December 31, 2019, principal repayments for the remaining period to the contractual maturity dates are as follows:

	<b>Face value</b>
2020	\$ 18,277
2021	137,078
2022	—
2023	—
2024	—
Thereafter	500,000
	<u>\$ 655,355</u>

As at December 31, 2019, the Company had unused committed revolving credit facilities aggregating \$489,937,000 of which \$485,509,000 is available until October 27, 2021.

### 22. Other non-current liabilities

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Operating lease liability	\$ 111,322	\$ —
Tax payable	20,232	22,583
Finance lease liability	16,336	10,146
Other	3,348	9,251
	<u>\$ 151,238</u>	<u>\$ 41,980</u>

### 23. 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.

## Notes to the Consolidated Financial Statements

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

### 23. Equity and dividends (continued)

#### Share capital (continued)

##### *Share repurchase*

There were 1,223,674 common shares repurchased for \$42,012,000 during the year ended December 31, 2019. There were no common shares repurchased in the years ended December 2018 and 2017.

#### Dividends

##### *Declared and paid*

The Company declared and paid the following dividends during the years ended December 31, 2019, 2018, and 2017:

	<u>Declaration date</u>	<u>Dividend per share</u>	<u>Record date</u>	<u>Total dividends</u>	<u>Payment date</u>
Year ended December 31, 2019:					
Fourth quarter 2018	January 25, 2019	\$ 0.1800	February 15, 2019	\$ 19,568	March 8, 2019
First quarter of 2019	May 8, 2019	0.1800	May 29, 2019	19,592	June 19, 2019
Second quarter of 2019	August 8, 2019	0.2000	August 28, 2019	21,631	September 18, 2019
Third quarter 2019	November 7, 2019	0.2000	November 27, 2019	21,744	December 18, 2019
Year ended December 31, 2018:					
Fourth quarter 2017	January 26, 2018	\$ 0.1700	February 16, 2018	\$ 18,246	March 9, 2018
First quarter of 2018	May 9, 2018	0.1700	May 30, 2018	18,342	June 20, 2018
Second quarter of 2018	August 7, 2018	0.1800	August 29, 2018	19,528	September 19, 2018
Third quarter 2018	November 8, 2018	0.1800	November 28, 2018	19,562	December 19, 2018
Year ended December 31, 2017:					
Fourth quarter 2016	January 23, 2017	\$ 0.1700	February 10, 2017	\$ 18,160	March 3, 2017
First quarter 2017	May 4, 2017	0.1700	May 23, 2017	18,188	June 13, 2017
Second quarter 2017	August 4, 2017	0.1700	August 25, 2017	18,210	September 15, 2017
Third quarter 2017	November 7, 2017	0.1700	November 29, 2017	18,227	December 20, 2017

##### *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 \$0.20 cents per common share, accumulating to a total dividend of \$21,906,000. The aggregate amount of the proposed final dividend is expected to be paid out of retained earnings on March 6, 2020 to stockholders of record on February 14, 2020. 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.

#### Foreign currency translation reserve

Foreign currency translation adjustment includes intra-entity foreign currency transactions that are of a long-term investment nature, which generated net loss of \$1,082,000 for 2019 (2018: net loss of \$9,602,000; 2017: net gain of \$18,129,000).

## Notes to the Consolidated Financial Statements

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

### 24. Share-based payments

Share-based payments consist of the following compensation costs:

Year ended December 31,	2019	2018	2017
Stock option compensation expense:			
SG&A expenses	\$ 4,697	\$ 7,895	\$ 8,948
Acquisition-related costs	—	357	4,752
Share unit expense:			
Equity-classified share units	8,047	11,256	3,529
Liability-classified share units	1,380	1,764	670
Employee share purchase plan - employer contributions	2,281	2,174	1,813
	<u>\$ 16,405</u>	<u>\$ 23,446</u>	<u>\$ 19,712</u>

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

### Stock option plans

The Company has three stock option plans that provide for the award of stock options to selected employees, directors, and officers of the Company: a) Amended and Restated Stock Option Plan, b) IronPlanet 1999 Stock Plan, and c) IronPlanet 2015 Stock Plan. The IronPlanet 1999 Stock Plan and IronPlanet 2015 Stock Plan were assumed by the Company as part of the acquisition of IronPlanet (note 29).

Stock option activity for the years ended December 31, 2019, 2018, and 2017 is presented below:

	Common shares under option	WA exercise price	WA remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, December 31, 2016	3,366,714	\$ 24.02	7.5	\$ 33,601
Granted	970,947	31.07		
Assumed in acquisition	737,358	14.26		
Exercised	(444,571)	22.35		3,762
Forfeited	(170,704)	19.38		
Outstanding, December 31, 2017	4,459,744	\$ 24.29	7.5	\$ 17,649
Granted	923,199	32.14		
Exercised	(1,235,154)	23.10		14,808
Forfeited	(132,624)	25.91		
Expired	(1,302)	25.76		
Outstanding, December 31, 2018	4,013,863	\$ 26.41	7.2	\$ 25,374
Granted	914,068	34.03		
Exercised	(1,672,022)	24.58		27,349
Forfeited	(458,092)	32.15		
Expired	(628)	24.44		
Outstanding, December 31, 2019	<u>2,797,189</u>	<u>\$ 29.05</u>	<u>7.1</u>	<u>\$ 38,874</u>
Exercisable, December 31, 2019	<u>1,497,043</u>	<u>\$ 26.11</u>	<u>6.0</u>	<u>\$ 25,203</u>

## Notes to the Consolidated Financial Statements

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

### 24. Share-based payments (continued)

#### Stock option plans (continued)

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, 2019, there were 7,222,978 (December 31, 2018: 2,478,321) shares authorized and available for grants of options under the stock option plans. The options outstanding at December 31, 2019 expire on dates ranging to August 12, 2029. The WA grant date fair value of options granted during the year ended December 31, 2019 was \$7.52 per option (2018: \$7.69; 2017: \$7.22). The WA share price of options exercised during the year ended December 31, 2019 was \$40.32 (2018: \$35.08; 2017: \$30.81).

The significant assumptions used to estimate the fair value of stock options granted during the years ended December 31, 2019, 2018, and 2017 are presented in the following table on a weighted average basis:

Year ended December 31,	2019	2018	2017
Risk free interest rate	2.5 %	2.7 %	2.0 %
Expected dividend yield	2.06 %	2.11 %	2.15 %
Expected lives of the stock options	5 years	5 years	5 years
Expected volatility	26.8 %	28.1 %	27.8 %

In 2017, the fair value of the stock options assumed from the IronPlanet acquisition is estimated on the acquisition date using the Black-Scholes option pricing model. The weighted average fair value of the assumed options was \$16.93. The significant assumptions used to estimate the fair value of these assumed stock options are presented in the following table on a weighted average basis:

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

As at December 31, 2019, the unrecognized stock-based compensation cost related to the non-vested stock options was \$3,457,000, which is expected to be recognized over a weighted average period of 2.0 years. Cash received from stock-based award exercises for the year ended December 31, 2019 was \$41,094,000 (2018: \$28,524,000; 2017: \$9,936,000). The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$1,679,000 for the year ended December 31, 2019 (2018: \$2,793,000; 2017: \$1,017,000).

## Notes to the Consolidated Financial Statements

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

### 24. Share-based payments (continued)

#### Share unit plans

Share unit activity for the years ended December 31, 2019, 2018, and 2017 is presented below:

	Equity-classified awards				Liability-classified awards					
	PSUs		RSUs		PSUs <sup>(1)</sup>		RSUs		DSUs	
	Number	WA grant date fair value	Number	WA grant date fair value	Number	WA grant date fair value	Number	WA grant date fair value	Number	WA grant date fair value
Outstanding, December 31, 2016	243,968	\$ 27.48	—	\$ —	311,329	\$ 23.96	160,009	\$ 23.37	73,520	\$ 25.41
Granted	136,073	30.28	125,152	26.93	98,775	31.21	878	32.30	19,967	29.67
Transferred to (from) equity awards on modification	81,533	24.47	—	—	(81,533)	24.66	—	—	—	—
Vested and settled	(27,326)	26.82	—	—	(49,873)	23.64	(156,221)	23.33	—	—
Forfeited	—	—	—	—	(19,457)	26.39	—	—	—	—
Outstanding, December 31, 2017	434,248	\$ 27.83	125,152	\$ 26.93	259,241	\$ 26.38	4,666	\$ 26.42	93,487	\$ 26.32
Granted	240,803	35.63	91,251	32.10	—	—	66	34.70	26,553	33.42
Transferred to equity awards on modification	257,659	31.30	—	—	(257,659)	26.38	—	—	—	—
Vested and settled	(212,263)	33.78	—	—	—	—	(4,732)	26.54	(6,605)	23.16
Forfeited	(50,159)	31.41	(8,417)	32.00	(1,582)	26.45	—	—	—	—
Outstanding, December 31, 2018	670,288	\$ 31.46	207,986	\$ 28.99	—	\$ —	—	\$ —	113,435	\$ 28.16
Granted	170,208	36.13	36,350	35.40	—	—	—	—	24,810	35.99
Vested and settled	(251,883)	30.33	(265)	31.98	—	—	—	—	(19,877)	27.45
Forfeited	(159,889)	33.21	(6,651)	34.27	—	—	—	—	—	—
Outstanding, December 31, 2019	428,724	\$ 32.89	237,420	\$ 29.72	—	\$ —	—	\$ —	118,368	\$ 29.64

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

The total market value of liability-classified share units vested and released during the year ended December 31, 2019 was \$774,000 (2018: \$410,000; 2017: \$6,521,000). The Company modified the employee PSU plans from liability-classified to equity-classified share units prior to the 2018 vesting.

#### Senior executive and employee PSU plans

The Company grants PSUs under a senior executive PSU plan and an employee PSU plan (the “PSU Plans”). Under the PSU Plans, the number of PSUs that vest is conditional upon specified market, service, and/or performance vesting conditions being met. The PSU Plans allow the Company to choose whether to settle the awards in cash or in shares. The Company intends to settle by issuance of shares for units granted in 2018 and onwards. With respect to settling in shares, the Company has the option to either (i) arrange for the purchase shares on the open market on the employee’s behalf based on the cash value that otherwise would be delivered, or (ii) to issue a number of shares equal to the number of units that vest.

The fair value of the equity-classified PSUs awarded in 2019 is estimated using the 20-day volume weighted average price of the Company’s common shares listed on the New York Stock Exchange, as these awards are not subject to market vesting conditions. PSUs awarded in 2018 and 2017 contained market vesting conditions and their fair value is estimated on modification date and on the date of grant using a Monte-Carlo simulation model. The significant assumptions used to estimate the fair value of the equity-classified PSUs awarded during 2018 and 2017 are presented in the following table on a weighted average basis:

Year ended December 31,	2018	2017
Risk free interest rate	1.92 %	1.40 %
Expected dividend yield	2.09 %	1.92 %
Expected lives of the PSUs	3 years	3 years
Expected volatility	31.1 %	28.2 %
Average expected volatility of comparable companies	34.1 %	37.0 %

## Notes to the Consolidated Financial Statements

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

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### 24. Share-based payments (continued)

#### Share unit plans (continued)

##### *Senior executive and employee PSU plans (continued)*

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

<u>Year ended December 31,</u>	<u>2017</u>
Risk free interest rate	1.5 %
Expected dividend yield	2.01 %
Expected lives of the PSUs	3 years
Expected volatility	28.9 %
Average expected volatility of comparable companies	33.4 %

Risk free interest rate is estimated using Bloomberg's United States dollar Swap Rate as of the valuation date. Expected dividend yield assumes a continuation of the most recent quarterly dividend payments. Given the limited historical information available for the PSUs, the Company estimated the expected life of PSUs with reference to the expected life of stock options. Stock options have five-year expected lives, whereas PSUs vest after three years. As such, the Company estimates the expected life of the PSUs to equal the three-year vesting period. Expected volatility is estimated from Bloomberg's volatility surface of the common shares as of the valuation date.

As at December 31, 2019, the unrecognized share unit expense related to equity-classified PSUs was \$5,015,000, which is expected to be recognized over a weighted average period of 1.7 years.

##### *Sign-on grant PSUs*

On August 11, 2014, the Company awarded 102,375 one-time sign-on grant PSUs (the "SOG PSUs") that are subject to market vesting conditions related to the Company's share performance over rolling two, three, four, and five-year periods. This plan was modified in 2017 and 2018, and the nature, impact, and significant assumptions used to determine fair value at modification are provided in the "Modifications" section below.

This plan fully vested in August 2019 and there was no unrecognized share unit expense at December 31, 2019.

##### *RSUs*

The Company has RSU plans that are equity-settled and not subject to market vesting conditions.

Fair values of RSUs are estimated on grant date using the 20-day volume weighted average price of the Company's common shares listed on the New York Stock Exchange.

As at December 31, 2019, the unrecognized share unit expense related to equity-classified RSUs was \$2,455,000, which is expected to be recognized over a weighted average period of 1.2 years.

##### *DSUs*

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

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

## Notes to the Consolidated Financial Statements

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

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### 24. Share-based payments (continued)

#### Share unit plans (continued)

##### *DSUs (continued)*

As at December 31, 2019, the Company had a total share unit liability of \$5,130,000 (2018: \$3,714,000) in respect of share units under the DSU plans presented in current liabilities.

##### **Modifications**

The Company modified various share-based payment plans in 2017 and 2018. The nature and impact of these modifications are discussed further below.

##### Employee and Executive PSU Plan modification

On March 1, 2018, the Company modified the market and performance vesting conditions for the PSUs. Concurrently, the PSUs under the employee PSU plan were reclassified to equity awards based on the Company's settlement intentions. The weighted average fair value of the PSU awards outstanding on the modification date was \$31.35. The incremental compensation recognized as a result of the vesting condition modification was \$1,400,000. The share unit liability related to the employee PSUs, representing the portion of the fair value attributable to past service, was \$6,701,000, which was reclassified to equity on that date. No incremental compensation was recognized as a result of the employee PSU settlement modification.

##### Sign-on Grants modifications

Prior to May 1, 2017, the Company was only able to settle the SOG PSU award in cash, and as such, the plan was classified as a liability award. On May 1, 2017 (the "2017 SOG modification date"), the shareholders approved amendments to the SOG PSU grant, allowing the Company to choose whether to settle the award in cash or in shares. The Company chose to settle in shares and, accordingly:

- The shareholders authorized 150,000 shares to be issued for settlement of the SOG PSUs; and
- The share unit liability, representing the portion of the fair value attributable to past service, of \$1,421,000 was reclassified to equity.

The weighted average fair value of the SOG PSUs outstanding on the modification date was \$24.47. No incremental compensation was recognized as a result of the modification. At the time of this modification, the SOG PSUs were contingently redeemable in cash in the event of death of the participant. Consequently, the Company reclassified \$1,803,000 to temporary equity, representing the portion of the contingent redemption amount of the SOG PSUs as if redeemable on May 1, 2017, to the extent attributable to prior service.

On September 11, 2018, the Company modified the performance vesting conditions of the SOG PSUs. The modification impacted the third and fourth tranches of PSUs to vest. As a result of the modification, the actual number of units to vest will be determined by the Board of Directors of the Company based on absolute Total Shareholder Return ("TSR") performance over the period commencing on July 1, 2017, and ending on the fourth and fifth anniversaries of the grant date. Prior to this modification, the absolute TSR performance period commenced on August 11, 2014.

## Notes to the Consolidated Financial Statements

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

### 24. Share-based payments (continued)

#### Share unit plans (continued)

##### Modifications (continued)

The weighted average fair value of the PSU awards outstanding on the modification date was \$43.34. The incremental compensation recognized as a result of the vesting condition modification was \$838,000. It was determined based on the change in fair value of the equity-classified SOG PSUs immediately before and after modification. Significant assumptions used to estimate the fair value of the equity-classified SOG PSUs to determine the incremental compensation cost were as follows:

September 11, 2018	2018
Risk free interest rate	2.7 %
Expected dividend yield	1.53 %
Expected lives of the PSU	1 year
Expected volatility	29.2 %

Unrecognized compensation expense based on the fair value of the SOG PSU award on the modification has already amortized over the remaining service period.

##### RSU Modification

Prior to November 8, 2017, the Company was only able to settle the RSU awards in cash, and as such, the RSUs were classified as liability awards, which are fair valued on grant date and at each reporting date using the 20-day volume weighted average price of the Company's common shares listed on the New York Stock Exchange. On November 8, 2017 (the "RSU modification date"), the Board of Directors approved amendments to the RSU plans, allowing the Company to choose whether to settle the awards in cash or in shares for new RSUs granted after the RSU modification date. With respect to settling in shares, the Company has the option to either (i) arrange for the purchase shares on the open market on the employee's behalf based on the cash value that otherwise would be delivered, or (ii) to issue a number of shares equal to the number of units that vest, net of any applicable withholding, if any. The Company intends to settle in shares.

#### Employee share purchase plan

The Company has an employee share purchase plan that allows all employees that have completed two months 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.

### 25. Leases

The Company's breakdown of lease expense is as follows:

Year ended December 31,	2019	2018
Operating lease cost	\$ 17,878	\$ 20,547
Finance lease cost		
Amortization of leased assets	7,510	3,996
Interest on lease liabilities	800	389
Short-term lease cost	9,090	7,187
Sublease income	(559)	(904)
	<u>\$ 34,719</u>	<u>\$ 31,215</u>

## Notes to the Consolidated Financial Statements

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

### 25. Leases (continued)

#### Operating leases

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

The majority of the Company's operating leases have a fixed term with a remaining life between one month and 20 years, with renewal options included in the contracts. The leases have varying contract terms, escalation clauses and renewal options. Generally, there are no restrictions placed upon the lessee by entering into these leases, other than restrictions on use of property, sub-letting and alterations. At the inception of a lease, the Company determines whether it is reasonably certain to exercise a renewal option and includes the options in the determination of the lease term and the lease liability where it is reasonably certain to exercise the option. If the Company's intention is to exercise an option subsequent to the commencement of the lease, the Company will re-assess the lease term. The Company has included certain renewal options in its operating lease liabilities for key property leases for locations that have strategic importance to the Company such as its Corporate Head Office. The Company has not included any purchase options available within its operating lease portfolio in its determination of its operating lease liability.

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

2020	\$	16,051
2021		13,646
2022		12,266
2023		10,532
2024		8,967
Thereafter		105,935
Total future minimum lease payments	\$	167,397
less: imputed interest		(45,158)
Total operating lease liability	\$	122,239
less: operating lease liability - current		(10,917)
Total operating lease liability - non current	\$	111,322

At December 31, 2019, the weighted average remaining lease term for operating leases is 15.6 years and the weighted average discount rate is 4.2%.

#### Finance leases

The Company has entered into finance lease arrangements for certain vehicles, computer and yard equipment and office furniture. The majority of the leases have a fixed term with a remaining life of one month to six 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. For certain leases such as vehicle leases the Company has included renewal options in the determination of its lease liabilities.

As at December 31, 2019, the net carrying amount of computer and yard equipment and other assets under capital leases is \$23,258,000 (December 31, 2018: \$14,976,000), and is included in the total property, plant and equipment as disclosed on the consolidated balance sheets.

## Notes to the Consolidated Financial Statements

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

### 25. Leases (continued)

#### Finance leases (continued)

Assets recorded under capital leases are as follows:

As at December 31, 2019	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 15,314	\$ (7,832)	\$ 7,482
Yard and others	21,525	(5,749)	15,776
	<u>\$ 36,839</u>	<u>\$ (13,581)</u>	<u>\$ 23,258</u>

As at December 31, 2018	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 9,428	\$ (3,992)	\$ 5,436
Yard and others	12,125	(2,585)	9,540
	<u>\$ 21,553</u>	<u>\$ (6,577)</u>	<u>\$ 14,976</u>

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

2020	\$ 8,369
2021	7,014
2022	5,160
2023	3,443
2024	1,462
Thereafter	74
Total future minimum lease payments	\$ 25,522
less: imputed interest	(1,600)
Total finance lease liability	\$ 23,922
less: finance lease liability - current	(7,586)
Total finance lease liability - non current	<u>\$ 16,336</u>

At December 31, 2019, the weighted average remaining lease term for finance leases is 3.6 years and the weighted average discount rate is 4.0%.

#### Subleases

As at December 31, 2019, the total future minimum sublease payments expected to be received under non-cancellable subleases is \$616,000 (2018: \$1,187,000; 2017: \$1,936,000). The lease expenditure charged to earnings during the year ended December 31, 2019 was \$26,968,000 (2018: \$27,734,000; 2017: \$21,956,000).

### 26. Commitments

#### Commitments for expenditures

As at December 31, 2019, the Company had committed to, but not yet incurred, \$2,697,000 in capital expenditures for property, plant and equipment and intangible assets (December 31, 2018: \$1,151,000).

## Notes to the Consolidated Financial Statements

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

### 26. Commitments (continued)

#### Commitment for inventory purchase

The Company entered into a two-year non-rolling stock surplus contract with the U.S. Government Defense Logistics Agency (the “DLA”) in December 2017 with the option to extend for up to four-years. Pursuant to the contract, the original performance period commenced in April 2018 and concludes in March 2020. The Company has exercised its option for one year, extending the performance period to March 2021.

The Company has committed to purchase between 150,000 and 245,900 units of property with an expected minimum value of \$11,104,000 and up to \$51,028,000 annually to the extent that goods are available from the DLA over the initial 12 month period relating to the purchase of inventory. At December 31, 2019, the Company has purchased \$33,727,000 pursuant to the 12 month period of this contract which commenced in April 2019.

### 27. Contingencies

#### Legal and other claims

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

#### Guarantee contracts

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

At December 31, 2019, there were \$63,612,000 of assets guaranteed under contract, of which 39% is expected to be sold prior to March 31, 2020 with the remainder to be sold by June 30, 2020 (December 31, 2018: \$41,461,000 of which 51% was expected to be sold prior to the end of March 31, 2019 with the remainder to be sold by May 31, 2020).

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

### 28. Selected quarterly financial data (unaudited)

Certain comparative figures have been restated to conform to current presentation. The following is a summary of selected quarterly financial information (unaudited):

2019	Revenues	Operating income	Net income	Attributable to stockholders		
				Net income	Earnings per share	
					Basic	Diluted
First quarter	\$ 303,429	\$ 33,588	\$ 18,172	\$ 18,164	\$ 0.17	\$ 0.17
Second quarter	393,222	77,970	54,131	54,036	0.50	0.49
Third quarter	289,796	40,160	25,272	25,266	0.23	0.23
Fourth quarter	<u>332,194</u>	<u>71,484</u>	<u>51,565</u>	<u>51,573</u>	<u>0.47</u>	<u>0.47</u>

  

2018	Revenues	Operating income	Net income	Attributable to stockholders		
				Net income	Earnings per share	
					Basic	Diluted
First quarter	\$ 260,178	\$ 32,873	\$ 17,207	\$ 17,138	\$ 0.16	\$ 0.16
Second quarter	308,530	64,795	45,727	45,717	0.42	0.42
Third quarter	245,346	31,194	23,112	23,138	0.21	0.21
Fourth quarter	<u>355,972</u>	<u>56,327</u>	<u>35,460</u>	<u>35,486</u>	<u>0.33</u>	<u>0.32</u>

## Notes to the Consolidated Financial Statements

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

### 28. Selected quarterly financial data (unaudited) (continued)

2017	Revenues	Operating income	Net income (loss)	Attributable to stockholders		
				Net income (loss)	Earnings (loss) per share	
				Basic	Diluted	
First quarter	\$ 199,427	\$ 23,597	\$ 10,433	\$ 10,377	\$ 0.10	\$ 0.10
Second quarter	252,613	26,888	17,713	17,635	0.16	0.16
Third quarter	227,401	16,931	10,323	10,261	0.10	0.09
Fourth quarter	291,750	40,038	36,837	36,754	0.34	0.34

### 29. Business combinations

#### IronPlanet acquisition

On May 31, 2017 (the "IronPlanet Acquisition Date"), the Company acquired 100% of the issued and outstanding shares of IronPlanet for a total fair value consideration of \$776,474,000. As at the acquisition date, cash consideration of \$772,706,000, of which approximately \$35,000,000 was placed in escrow, was paid to the former shareholders, vested option holders and warrant holders of IronPlanet. In addition to the cash consideration, non-cash consideration of \$2,330,000 was issued attributable to the assumption of outstanding IronPlanet options, \$1,771,000 was paid in cash and placed in escrow, related to customary closing adjustments, and \$333,000 was related to settlement of intercompany payable transactions. Funds placed in escrow of \$36,771,000 were released in March 2018.

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

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

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

The acquisition was accounted for in accordance with ASC 805, *Business Combinations*. The assets acquired and liabilities assumed were recorded at their estimated fair values at the IronPlanet Acquisition Date. Goodwill of \$568,566,000 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)

### 29. Business combinations (continued)

#### IronPlanet acquisition (continued)

##### *IronPlanet purchase price allocation*

	<u>May 31, 2017</u>
Purchase price	\$ 776,474
Assets acquired:	
Cash and cash equivalents	\$ 95,626
Restricted cash	3,000
Trade and other receivables	13,021
Inventory	600
Advances against auction contracts	4,623
Prepaid expenses and deposits	1,645
Income taxes receivable	55
Property, plant and equipment	2,381
Other non-current assets	2,551
Deferred tax assets	1,497
Intangible assets	188,000
Liabilities assumed:	
Auction proceeds payable	63,616
Trade and other payables	15,540
Deferred tax liabilities	25,935
Fair value of identifiable net assets acquired	207,908
Goodwill acquired on acquisition	\$ 568,566

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

#### Goodwill

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