

## FINANCIAL INFORMATION

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

*The following discussion summarizes the significant factors affecting the consolidated operating results and financial condition of Ritchie Bros. Auctioneers Incorporated ("Ritchie Bros." or the "Company") for the year ended December 31, 2002 compared to the year ended December 31, 2001. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report.*

*The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in Canada which, except as set out in note 12 to the consolidated financial statements, result in materially consistent financial position and results of operations to that which would be reported under generally accepted accounting principles in the United States. Amounts discussed below are based on consolidated financial statements prepared in accordance with Canadian accounting principles and are presented in United States dollars. The following discussion should also be read in conjunction with the disclosures below regarding forward-looking statements and risk factors.*

Ritchie Bros. is the world's largest auctioneer of industrial equipment. At December 31, 2002, the Company operated from over 90 locations in more than 20 countries around the world. The Company sells, through unreserved public auctions, a broad range of equipment, including equipment utilized in the construction, transportation, mining, forestry, petroleum, marine and agricultural industries. Ritchie Bros.' customers are primarily end users of equipment, such as contractors, and they also include equipment manufacturers, dealers, brokers and finance companies. The business is driven mainly by regular fleet upgrades and reconfigurations, as well as by the timing of the completion of major construction and other projects.

Ritchie Bros. operates in the auction segment of the global used equipment marketplace—a market that continues to grow as a result of the increasing, cumulative world supply of used equipment. The auction segment is highly fragmented and has grown over the last number of years. Based on market knowledge and discussions with participants in the global used equipment market, management believes that the auction segment will continue to grow. The Company believes that it has several key strengths that will enable Ritchie Bros. to continue to attract an increasing number of consignors and bidders to its auctions. These strengths include, but are not limited to, the Company's reputation for conducting fair auctions, the Company's size and international scope of operations, and the Company's in-depth experience in the marketplace.

In the coming years, one of Ritchie Bros.' goals is to grow its gross auction sales. The Company's strategies for accomplishing this objective include continued development of markets and regions in which Ritchie Bros. already operates and expansion of the Company's presence into new and emerging markets and regions, particularly within Europe and North America. The Company also intends to continue to work with equipment manufacturers to expand sales of unused equipment at its auctions.

An example of the Company's growth strategy is the extension of the business into related, complementary markets, such as agricultural equipment, over-the-road trucks and trailers, and marine equipment. This expansion is being accomplished in part by hiring sales personnel with experience in these markets.

The Company is also using the Internet to enhance its business and service offerings and to further extend the geographic reach of its auctions (see discussion below). As well, the Company continues to develop its infrastructure in order to improve the productivity of its employees and enhance the service it provides to its customers.

Although the Company cannot accurately anticipate the future effect of inflation on its financial condition or results of operations, inflation historically has not had a material effect on the Company's operations.

#### Sources of Revenue and Revenue Recognition

A key indicator of the Company's financial performance is gross auction sales, representing the total proceeds from all items sold at auction by Ritchie Bros. during the period. Gross auction sales is a not a measure of revenue and is not presented in the Company's consolidated financial statements; however, the Statement of Operations caption "auction revenues" is directly related to the value of gross auction sales (see discussion below under Results of Operations). Certain other Statement of Operations line items are also best understood considering the relationship to gross auction sales. Auction revenues are comprised of auction commissions, net profits on the sale of inventory, incidental interest income, and handling fees on the sale of certain lots. All revenue is recognized when the auction sale is complete and the company has determined that the auction proceeds are collectible.

Auction commissions are comprised of two main components. The most common type of commission is generated by the Company when it acts as agent for consignors and earns a straight commission on the gross sales price of the consigned equipment at auction. In certain other cases, the Company guarantees minimum gross sales proceeds to the consignor and earns a commission based on the actual results of the auction, including a negotiated percentage of sales proceeds, if any, in excess of the guaranteed amount. If the actual auction proceeds are less than the guaranteed amount, the Company's commission is reduced and, if proceeds are sufficiently lower, the Company can incur a loss on the sale. Ritchie Bros. factors in a higher rate of commission on these sales to compensate for the increased risk assumed by the Company. The Company's exposure from these guarantee contracts fluctuates over time but guarantees are generally outstanding for 30 to 45 days and the combined exposure at any point in time from all outstanding guarantees is typically less than \$30 million. Losses, if any, resulting from guarantee contracts are recorded in the period in which the relevant auction is held.

Auction revenues also include the net profit on the sale of inventory in cases where the Company acquires title to a piece of equipment for a short time prior to an auction sale. When purchased, this equipment is assigned to a specific auction sale and sold at that auction in the same manner as consigned equipment. During the period that the Company retains ownership, the cost of the equipment is recorded as inventory on the Balance Sheet. The auction revenue recorded upon sale of the equipment is the net gain or loss on the sale. Net profit on sales of inventory represented approximately 7% of auction revenues for the year ended December 31, 2002 (2001 - 10%).

The composition of auction revenues is tied to the nature of contracts entered into with consignors in any particular year. The choice by consignors between straight commission, gross guarantee, or outright purchase arrangements is dependent upon many factors including general economic conditions. As a result, the mix of contracts and the effective auction revenue rate in 2002 are not necessarily indicative of future performance.

Beginning in 2002, auction revenues include a handling fee, payable by the buyer, equal to 10% of the selling price on all lots sold for 2,500 or less in the currency of the auction. The impact of this fee on auction revenues and the Company's auction revenue rate in any future period will depend on the quantity and the value of lots sold during that period. The Company originally estimated that the impact of this fee would be to increase auction revenues by approximately 0.3% of gross auction sales. For the year ended December 31, 2002, the impact of this fee was an increase in auction revenues of approximately 0.4% of gross auction sales and the Company believes that it is reasonable to project a similar impact in 2003.

Beginning January 1, 2003, the Company implemented fees to recover some of the costs involved in running its proxy bidding service and the rbauctionBid-Live Internet bidding service. The Proxy Purchase Fee and the Internet Purchase Fee will affect only buyers using these services. The fees will be calculated as 2% of the selling price to a maximum of 500 per lot in the currency of the auction. The company currently estimates that these fees will be applicable to approximately 5% of gross auction sales in 2003 and will therefore increase auction revenues by approximately 0.1% of gross auction sales.

The Company's gross auction sales and auction revenues are affected by the seasonal nature of the auction business. Gross auction sales and auction revenues tend to increase during the second and fourth calendar quarters, during which time the Company generally conducts more business than in the first and third calendar quarters. The Company's gross auction sales and auction revenues are also affected on a period-to-period basis by the timing of major auctions. In newer markets where the Company is developing operations, the number and size of auctions and, as a result, the level of gross auction sales and auction revenues, is likely to vary more dramatically from period-to-period than in the Company's established markets where the number, size and frequency of the Company's auctions are more consistent. Finally, economies of scale are achieved as the Company's operations in a region mature from conducting intermittent auctions, establishing a regional auction unit, and ultimately to developing a permanent auction site. Economies of scale are also achieved when the size of the Company's auctions increases.

#### **Developments in 2002**

Ritchie Bros. entered 2002 with the primary goals of growing gross auction sales and net earnings, improving sales force productivity, and increasing the customer base. Related goals included expansion into related markets and regions and using the Internet and other technology to enhance the Company's business. All of these goals were achieved in 2002.

During the first quarter of 2002, the Company launched rbauctionBid-Live. This service enhances Ritchie Bros.' live auctions by allowing qualified bidders to bid on and purchase equipment over the Internet in real time. Purchases through the rbauctionBid-Live system represented approximately 6% of gross auction sales for the year ended December 31, 2002 and are expected to be in the range of 10% to 15% in 2003. Also during the first quarter the Company opened a new permanent auction site in Phoenix, Arizona, replacing an existing auction facility.

During the second quarter of 2002, the Company opened a new auction facility in Edmonton, Alberta, Canada replacing an existing auction site. The new 125-acre facility includes a two auction ramp auction theatre and offers combined seating for 1,800 bidders, allowing for two simultaneous auctions of rolling stock. Also during the second quarter, C. Russell Cmolik announced his plan to retire effective August 31, 2002; and on July 1, 2002, Randall J. Wall was appointed President and Chief Operating Officer of the Company, the position previously held by Mr Cmolik.

On August 1, 2002, the Company acquired the auction business of All Peace Auctions, an Alberta, Canada based auctioneer of industrial and agricultural equipment (the All Peace Acquisition). As part of the acquisition the Company also acquired the assets used in the business, including a 30-acre permanent auction site in Grande Prairie, Alberta. The All Peace Acquisition helped expand the Company's presence in northern Alberta and the Company's share of the agricultural equipment market.

During the fourth quarter of 2002 the Company began holding auctions at its new auction facility in Orlando, Florida, which replaced its previous permanent auction site in Florida.

The Company expects to open a new, replacement auction facility in Prince George, British Columbia in the second quarter of 2003. This will bring to a close the aggressive facilities expansion program begun with the Company's initial public offering in 1998. Although the Company will continue to improve existing auction facilities and add new sites as appropriate opportunities arise, the level of capital expenditures in the next few years is expected to be lower than the average level experienced over the past four years.

#### **Critical Accounting Policies**

In preparing the consolidated financial statements in conformity with generally accepted accounting principles, the Company's management must make decisions that impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, management applies judgments based on their understanding and analysis of the relevant circumstances and historical experience. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared.

The following discussion of critical accounting policies is intended to supplement the Significant Accounting Policies presented as Note 1 to the Company's 2002 audited consolidated financial statements. Note 1 summarizes the accounting policies and methods used in the preparation of the consolidated financial statements. The policy discussed below was selected because it requires more significant judgments and estimates in the preparation and presentation of the consolidated financial statements than other policies. On an ongoing basis, the Company evaluates these judgments and estimates, including consideration of uncertainties relating to revenue recognition criteria, recoverability of capital assets and goodwill, and the assessment of possible contingent assets or liabilities that should be recognized or disclosed in the consolidated financial statements. The Company bases its estimates on historical experience, as well as other events and assumptions that are believed to be reasonable at the time. Actual results could differ from these estimates under different conditions.

#### **Valuation of Goodwill**

Management assesses the possible impairment of goodwill in accordance with standards recently issued by the Canadian Institute of Chartered Accountants in Canada and the Financial Accounting Standards Board in the US. The new standards stipulate that reporting entities with previously recorded goodwill cease amortizing goodwill commencing January 1, 2002. Instead, the carrying value of goodwill is tested for impairment annually at the reporting unit level using a two-step impairment test, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

In the first step of the impairment test, the net book value of each reporting unit is compared with its fair value. The Company operates as a single reporting unit, which is the consolidated public company. As a result, the Company is able to refer to the stock market for a third party assessment of its fair value. As long as the fair value of the reporting unit exceeds its net book value, goodwill is considered not to be impaired and the subsequent step of the impairment test is unnecessary. Changes in the market value of the Company's stock may impact the assessment as to whether goodwill has been impaired. These changes may result from changes in Ritchie Bros.' business plans or other factors that are outside management's control. The Company performs the goodwill test each year as at September 30, unless events or changes in circumstances indicate that goodwill might be impaired. The test was conducted as at September 30, 2002 and the Company determined that no impairment had occurred.

#### **Results of Operations**

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

##### **Auction Revenues**

Auction revenues grew to \$133.6 million during the year ended December 31, 2002, an increase of \$16.6 million or 14% compared to the prior year's auction revenues of \$117.0. The improvement is a result of higher gross auction sales for the year, combined with a higher average auction revenue rate on those sales. Gross auction sales totaled \$1.38 billion for the year ended December 31, 2002, an increase of \$90.0 million or 7% over the prior year, primarily as a result of increased auction volume in Europe and the Middle East in 2002.

During 2002, the Company experienced an auction revenue rate (auction revenues as a percentage of gross auction sales) of 9.70% compared to a rate of 9.10% in 2001 and a long-term (prior to 2002) average of approximately 8.80%. The improvement can be attributed partly to the handling fee introduced at the beginning of 2002 and above-average performance of the Company's straight commission and underwritten business. Management does not believe that the above average experience in 2002 is indicative of a trend.

For the year ended December 31, 2002, the handling fee introduced in 2002 (see "Sources of Revenue and Revenue Recognition") generated auction revenues of approximately 0.40% of gross auction sales, slightly higher than had been expected by the Company. For 2003 the Company expects that this handling fee will once again generate auction revenues in the range of 0.40% of gross auction sales.

Commencing January 1, 2003 auction revenues will include the Proxy Purchase Fee and the Internet Purchase Fee (see "Sources of Revenue and Revenue Recognition"). The Company currently anticipates that these fees will on a combined basis generate incremental auction revenues in the range of 0.10% of gross auction sales.

Prior to 2002, the Company's auction revenue rate had averaged approximately 8.80%. With the introduction of the handling fee in 2002 and the Proxy and Internet Purchase Fees in 2003, management believes that the Company's auction revenue rate will be in the range of 9.30% in 2003.

#### **Direct Expenses**

Direct expenses consist of costs incurred as a direct result of an auction sale being held. Direct expenses include the costs of hiring personnel to assist in conducting the auction, advertising specifically related to the auction, travel costs for full time employees to attend and work at the auction site, security hired to safeguard equipment at the auction site and lease expenses for temporary auction sites.

Direct expenses for the year ended December 31, 2002 totaled \$19.7 million, an increase of \$0.8 million or 4% compared to prior year direct expenses of \$18.9 million. Direct expenses as a percentage of gross auction sales improved to 1.43% compared to the 1.46% ratio experienced in 2001. Direct expenses as a percentage of gross auction sales fluctuate based on the size and location of auctions held each period. As the size of auctions increase, the direct expense rate generally decreases. Moreover, auctions held at permanent auction sites tend to have lower direct expense rates than auctions held at temporary locations. Management expects that direct expenses as a percentage of gross auction sales will average approximately 1.45% in 2003.

#### **Depreciation Expense**

Depreciation is calculated on either a straight line or a declining balance basis on capital assets employed in the Company's business, including building and site improvements, automobiles, yard equipment, and computer hardware and software. Depreciation expense for the year ended December 31, 2002 totaled \$9.2 million, an increase of \$0.1 million over depreciation of \$9.1 million recorded in 2001. The balance for the prior year included goodwill amortization of \$1.7 million. The Company stopped amortizing goodwill effective January 1, 2002 in accordance with new accounting pronouncements in Canada and the United States (see "Recent Accounting Pronouncements" below). After factoring out goodwill amortization, depreciation expense grew by \$1.8 million in 2002 primarily as a result of the depreciation of new auction facilities constructed over the past few years and increasing charges related to capitalized software development costs. Management anticipates that depreciation expense will continue to increase as existing auction sites are improved and additional permanent auction sites are acquired and developed.

#### **General and Administrative Expenses**

General and administrative expenses ("G&A") include items such as employee expenses (salaries, wages, performance bonuses and benefits), non-auction related travel, institutional advertising, insurance, general office, and information technology expenses. G&A increased to \$63.8 million for the year ended December 31, 2002, an increase of \$7.3 million or 13% compared to G&A of \$56.5 million in 2001. The increase in G&A is attributable to costs incurred in 2002 to support the growth initiatives of the Company, as well as to costs associated with the operation of new permanent auction sites opened during the year. In addition, the Company accrued higher performance bonuses in 2002 than in 2001 due to the strong growth in earnings before income taxes and bonuses in 2002. Future levels of G&A will continue to be affected by the expansion of infrastructure and workforce necessary to support the Company's growth plans, as well as other factors.

#### **Earnings from Operations**

Earnings from operations for 2002 were \$40.9 million compared to \$32.5 million in 2001 (\$34.2 million after excluding goodwill amortization). Earnings from operations increased in 2002 compared to 2001 primarily as a result of increased gross auction sales and an above average auction revenue rate (due in part to the introduction of the handling fee discussed above), offset in part by growth in G&A.

#### **Interest Expense**

Interest expense includes mainly interest and bank charges paid on bank term debt and operating credit lines. Interest expense for the year ended December 31, 2002 was \$4.3 million compared to \$4.0 million in 2001. During 2002, the Company capitalized interest of \$1.5 million (2001 - \$1.7 million) related to properties under development. Interest expense may increase in the future as the capitalization of interest decreases in conjunction with the completion of building projects currently under development. See "Overview" and "Liquidity and Capital Resources" for further discussion.

#### **Other Income**

Other income arises primarily from net fees earned by the Company for conducting appraisals for its customers, as well as from other miscellaneous sources. Other income for the year ended December 31, 2002 was \$2.5 million compared to \$1.4 million in 2001. The increase can be attributed mainly to increased appraisal activity during 2002. Management expects appraisal revenue to increase in the future as the Company attempts expand its activities in this area. Other income in 2002 also includes a \$1.0 million gain on the sale of redundant property.

#### **Income Taxes**

Income taxes of \$10.7 million for the year ended December 31, 2002 (2001 - \$9.9 million) have been computed based on rates of tax that apply in each of the tax jurisdictions in which the Company operates. The effective tax rate of 27.3% for the year ended December 31, 2002 is lower than the 33.0% rate the Company experienced in 2001 in part as a result of a one-time charge of \$2.0 million for withholding taxes paid on an inter-company dividend in 2001. Excluding this charge, the effective tax rate in 2001 would have been 26.3%. Variations in effective tax rates between different periods are primarily a result of differences in the amount of earnings attributable to the different tax jurisdictions in which the Company operates and earns its income. Income tax rates in future periods will fluctuate depending upon the impact of unusual items and the distribution of earnings between the different tax jurisdictions in which the Company operates and earns its income.

#### **Liquidity and Capital Resources**

The Company's cash position can fluctuate significantly from period to period, largely as a result of differences between the timing of the receipt of auction sale proceeds from buyers and the payment of net amounts due to consignors. If auctions are conducted near a period end, the Company may hold cash in respect of those auctions that will not be paid to consignors until after the period end. The Company generally pays out auction proceeds to consignors approximately 21 days following an auction. Accordingly, management believes a more meaningful measure of the Company's liquidity is working capital, including cash.

Working capital including cash was \$25.4 million at December 31, 2002, which is within the Company's current target for working capital. The comparable balance at the end of fiscal 2001 was \$19.3 million.

Capital expenditures for the year ended December 31, 2002 were \$35.8 million compared to \$38.1 million in 2001. The 2002 expenditures include \$2.8 million for the acquisition of tangible assets by virtue of the All Peace Acquisition and the reclassification to capital assets of land with a book value of \$3.3 million, which had previously been recorded as capital assets available for sale and a \$3.9 million foreign exchange effect relating to capital assets held in 2002 in currencies other than the United States dollar. Excluding these latter two items, capital asset additions were \$28.6 million in 2002, a decrease of \$9.5 million from 2001.

The Company continued to incur site development and building costs in 2002 in the United States and Canada relating to expansion projects commenced in prior years. During 2002 the Company opened new permanent auction sites in Phoenix, Arizona, Edmonton, Alberta, and Orlando, Florida and acquired a new permanent auction site in Grand Prairie, Alberta as part of the All Peace Acquisition. The Company will continue to add additional permanent auction sites in selected locations as opportunities arise, and is presently in various stages of commitments to acquire land for development in the United States. Actual expenditure levels in the future will depend on the Company's ability to identify, acquire and develop suitable auction sites. Capital expenditures, including maintenance capital expenditures, are expected to be in the range of \$15 million to \$20 million per year on average for the next few years.

The Company has established credit facilities with financial institutions in the United States, Canada, Europe, and Australia. The Company presently has access to credit lines for operations of approximately \$97.0 million and to credit lines for funding property acquisitions of approximately \$101.2 million. At December 31, 2002, the Company had bank debt related to operations of 2.8 million (2001 - nil), and bank debt related to property acquisitions totaled \$71.4 million (2001 - \$74.5 million), leaving a net credit line of \$94.2 million available for operations and net credit lines of \$29.8 million available for property acquisitions.

### Recent Accounting Pronouncements

In 2001 the Accounting Standards Board in Canada and the Financial Accounting Standards Board in the United States announced new standards related to the accounting for goodwill. As a result of the new standards, reporting entities with previously recorded goodwill ceased amortizing that goodwill on January 1, 2002. The carrying value of goodwill is now subject to a regular test for impairment. Amortization expense on goodwill recognized to December 31, 2001 totaling \$1.7 million is included in the Consolidated Statements of Operations and no such charge is recorded in 2002.

In 2001 the Accounting Standards Board in Canada issued Handbook Section 3870 establishing standards for the recognition, measurement and disclosure of stock-based compensation to employees and non-employees. The Company adopted Section 3870 beginning January 1, 2002. The adoption of this standard has not had a material impact on the Company's financial condition or results of operations because, to date, stock based compensation has been granted with exercise prices based on the market price at the date of grant. The Company applies the intrinsic value method of accounting for stock-based compensation, consistent with the principles it applies under United States accounting standards. Section 3870 requires additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share. This information is provided in note 8 to the consolidated financial statements for the year ended December 31, 2002.

In January 2003 the Accounting Standards Board in Canada issued Handbook Section 3063, Impairment of long-lived assets, establishing standards for the recognition, measurement and disclosure of the impairment of long-lived assets. The new Canadian standard is substantially the same as the existing standards in the United States. The Company does not expect the adoption of the new Canadian standard in 2003 to have a material impact on disclosure of financial condition or results of operations.

In February 2003 the Accounting Standards Board in Canada issued Accounting Guideline 14, Disclosure of Guarantees, clarifying the financial statement disclosures to be made by a guarantor about its obligations under guarantees. The new Canadian guidance is substantially the same as standards adopted in the United States in 2002 (Financial Accounting Standards Board Interpretation No. 45). The Company has not yet determined what, if any, impact this new guidance will have on its reported results in future periods.

### Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. These statements are based on current expectations and estimates about the Company's business. These statements include, in particular, statements relating to auction revenue rates, direct expense rates, general and administrative expenses, income tax rates, the anticipated improvement, acquisition and development of permanent auction sites, Internet initiatives, and the financing available to the Company. Words such as "expects", "intends", "plans", "believes", "estimates", "anticipates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. The following important risk factors, among others, could affect the Company's actual results and could cause such results to differ materially from those expressed in the Company's forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by securities legislation. Forward-looking statements should be considered in light of these factors.

### Risk Factors

#### Potential Inability to Achieve and Manage Growth

A principal component of the Company's strategy is to continue to grow by increasing earnings from operations in the Company's existing markets and by expanding into new geographic markets and into auction market segments that the Company has not historically emphasized. The Company's future growth will depend upon a number of factors, both within and outside of the Company's control, including: the identification and development of new markets; the identification and acquisition on favorable terms of suitable new auction sites and, possibly, of suitable acquisition candidates; the ability to hire, train and retain qualified personnel; the successful integration of new sites and any acquired businesses with the Company's existing operations; the acceptance by potential consignors and industrial equipment buyers of the auction process generally, as well as of the Company's expansion into new markets and market segments; the establishment and maintenance of favorable relationships with consignors and bidders in new markets and the maintenance of such relationships in existing markets; the receipt of any required governmental authorizations for proposed development or expansion; and the Company's ability to manage expansion and to obtain required financing. There can be no assurance that the Company will successfully expand its operations or that any expansion will be profitable. Further,

the results achieved by the Company to date may not be indicative of its prospects or its ability to penetrate new markets, many of which may have different competitive conditions and demographic characteristics than the Company's current markets.

As a result of expanding its operations, the Company will experience growth in the number of its employees, the scope of its operating and financial systems and the geographic area of its operations. This growth will increase the operating complexity of the Company and the level of responsibility of existing and new management personnel. There can be no assurance that the Company will be able to attract and retain qualified management and employees, that the Company's current operating and financial systems and controls will be adequate as the Company grows, or that any steps taken to attract and retain management and employees and to improve such systems and controls will be sufficient.

#### Quarterly and Seasonal Variations in Operating Results

The Company's revenues and operating results historically have fluctuated from quarter to quarter. These fluctuations have been and are expected to continue to be caused by a number of factors, including the timing of auctions; seasonal results of operations; general economic conditions in the Company's markets; the timing of acquisitions and development of auction sites and related costs; and the effectiveness of integrating new sites or acquired businesses. Additionally, the Company generally incurs substantial costs in entering new markets and the profitability of operations at a new location is uncertain, in part because the number and size of auctions at new locations is more variable than at the Company's more established locations. These factors, among others, may cause the Company's results of operations in some future quarters to be below the expectations of investors or results of previous quarters, which could have a material adverse effect on the market price of the Common Shares.

#### Potential Losses from Price Guarantees, Purchases of Inventory, Advances by the Company and Guarantees of Clear Title

The Company generally offers its services to consignors of used industrial equipment on a straight commission basis. In certain circumstances the Company will, subject to its evaluation of the equipment, either (1) offer to guarantee the consignor a minimum level of gross sale proceeds, regardless of the ultimate results of the auction or (2) offer to purchase the equipment directly from the consignor for sale in a particular auction. If auction proceeds are less than the guaranteed amount, the Company's commission would be reduced or, if sufficiently lower, the Company would incur a loss. If auction proceeds are less than the purchase price paid by the Company, the Company would incur a loss. Because all its auctions are unreserved, the Company cannot protect itself against such losses by bidding on or acquiring any items at the auctions. In recent periods, guarantees and purchases and sales by the Company of inventory have represented approximately one-quarter of the Company's annual gross auction sales.

Occasionally, the Company advances to consignors a portion of the estimated auction proceeds prior to the auction. The Company generally makes such advances only after taking possession of the equipment to be auctioned and upon receipt of a security interest in the equipment to secure the obligation. If the Company were unable to auction the equipment or if auction proceeds were less than amounts advanced, the Company could incur a loss.

The Company guarantees that each item purchased at its auctions is free of liens and other encumbrances up to the purchase price paid by the buyer. While the Company expends considerable effort ensuring that all liens have been identified and, if necessary, dealt with prior to the auction sale, there have been instances where liens have not been properly identified or discharged and the Company has had to make payments to the relevant lienholders or purchasers. If the Company is not able to recover sufficient funds from the consignors to offset the payment to the lienholders, the Company would incur a loss and such losses could be material.

#### Adverse Changes in Economic Conditions; Industry Cyclical

A substantial portion of the Company's revenues is derived from customers in industries that are cyclical in nature and subject to changes in general or regional economic conditions. Adverse changes or downturns in a given industry may decrease demand for related equipment and lead to lower auction revenues. Although auction sales to residents of countries or regions other than the country or region in which the auction is held have generally been increasing in recent years, approximately one-half of auction revenues is generated by same country or same region purchasers. As a result, the Company's operating results in a particular country or region may be adversely affected by events or conditions in that country or region, such as a local economic slowdown, adverse weather affecting local industries and other factors. The Company's operating results may also be adversely affected by increases in interest rates that may lead to a decline in economic activity.

### **Risks of Competition**

The international industrial equipment market and the industrial equipment auction market are highly fragmented. The Company competes for potential purchasers of industrial equipment with other auction companies and with indirect competitors such as equipment manufacturers, distributors and dealers that sell new or used equipment, as well as equipment rental companies. The Company also competes for potential consignors with other auction companies and with indirect competitors such as used equipment dealers. The Company's direct competitors are primarily regional auction companies. Some of the Company's indirect competitors have significantly greater financial and marketing resources and name recognition than the Company. New competitors with greater financial and other resources than the Company may enter the industrial equipment auction market in the future. Additionally, existing or future competitors may succeed in entering and establishing successful operations in new geographic markets prior to the Company's entry into such markets. They may also compete against the Company via Internet-based services. To the extent existing or future competitors seek to gain or retain market share by reducing commission rates, the Company may also be required to modify its commission rates, which may adversely affect the Company's results of operations and financial condition.

### **Supply of, Demand for, and Market Values of Used Equipment**

There are many factors that have an impact on the supply of and demand for used equipment, most of which the Company cannot control. In addition, market values for used equipment fluctuate based on circumstances beyond the Company's control. Price competition for new equipment has a direct impact on the supply of, demand for, and market value of used equipment. Some industrial equipment manufacturers have special promotions offering low or no down payment and low or no interest charges to increase sales of new equipment. In addition, competition between manufacturers of equipment exerts downward pressure on new equipment prices, which in turn impacts the supply of, demand for, and market values of used equipment. A significant erosion in the supply of, demand for and market values of used equipment could have a material impact on the Company's financial condition and results of operations.

### **Risks of Noncompliance with and Restrictions Imposed by Governmental and Environmental Regulation**

In the countries in which it operates, the Company is subject to a variety of federal, provincial, state and local laws, rules and regulations relating to, among other things, the auction business, imports and exports of equipment, worker safety, and the use, storage, discharge and disposal of environmentally sensitive materials. Failure to comply with such laws, rules and regulations could result in a substantial liability to the Company, suspension or cessation of certain of the Company's operations, restrictions on the Company's ability to expand at its present locations or into new locations, requirements for the acquisition of additional equipment or other significant expenses.

The development or expansion of auction sites is contingent upon receipt of required licenses, permits and other governmental authorizations. The inability of the Company to obtain such required items could have an adverse effect on its results of operations and financial condition. Additionally, changes or concessions required by regulatory authorities could result in significant delays in, or prevent completion of, such development or expansion. Under certain of the laws regulating the use, storage, discharge and disposal of environmentally sensitive materials, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in, or emanating from, such real estate, as well as related costs of investigation and property damage. Such laws often impose such liability without regard to whether the owner or lessee knew of or was responsible for the presence of such hazardous or toxic substances. There can be no assurance that environmental contamination does not exist at the Company's acquired or leased auction sites from prior activities at such locations or from neighboring properties or that additional auction sites acquired or leased by the Company will not prove to be so contaminated. Any such contamination could materially adversely affect the Company's financial condition or results of operations.

The Company is aware of potential restrictions in the United States and Europe that may affect the ability of equipment owners to transport certain equipment between certain jurisdictions. If these restrictions were to materially affect the ability of customers to ship equipment to or from the Company's auction sites, the restrictions could materially adversely affect the Company's business, financial condition and results of operations.

The imposition of additional export or import regulations or of additional duties, taxes or other charges on exports or imports could have a material adverse impact on participation in the Company's auctions by international bidders and consignors. Reduced participation by such parties could materially adversely affect the Company's business, financial condition and results of operations.

### **Potential Inadequacy of Insurance Coverage**

The Company maintains property and general liability insurance. There can be no assurance that such insurance will remain available to the Company at commercially reasonable rates or that the amount of such coverage will be adequate to cover any liability incurred by the Company. If the Company is liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of its coverage, its business, results of operations and financial condition could be materially adversely affected.

### **Risks of International Operations**

The Company conducts business in North, South and Central America, Europe, Asia, Australia, Africa and the Middle East and intends to expand its international presence. The Company's operations in international markets may be affected by fluctuating currency exchange rates, acts of terrorism or war, and by changing social, economic, political and governmental conditions and regulations.

### **Dependence on Key Personnel**

The Company's future performance and development will depend to a significant extent on the efforts and abilities of David E. Ritchie, a co-founder of the Company and its Chairman and Chief Executive Officer, and of its other executive officers. The loss of the services of one or more of such individuals or other senior managers could have a material adverse effect on the Company's business. The Company does not maintain key man insurance for any of its employees. The Company's ongoing success will depend on its continuing ability to attract, develop and retain skilled personnel in all areas of its business.

### **Failure, Pace, or Lack of Development of Internet-related Initiatives**

Although the Company expects its Internet presence in general, and its rbauctionBid-Live Internet bidding service in particular, to enhance rather than replace its current auction business, there can be no assurances that the investments incurred to date in these new technologies will result in a material improvement in the Company's financial condition or results of operations. In addition, the Company may not be able to successfully adapt its businesses to Internet commerce. Furthermore, the Company faces risks associated with implementing its new initiatives in the competitive and rapidly changing Internet environment.

Internet-related products are complex and rapidly evolving. The Company may encounter difficulties or delays in the development, implementation and market acceptance of its Internet initiatives. In addition, there can be no assurance that its infrastructure, networks and applications and systems will be able to successfully accommodate accelerated growth of peak traffic volumes as the rbauctionBid-Live service is rolled out to a greater number of auctions. Specific risks include: the extent to which the equipment auction market accepts the Internet as a method of purchasing; the Company's ability to develop or acquire enhancements to its Internet technologies; and, the Company's ability to market and implement Internet auction technologies that compete effectively against the on-line bidding technologies offered by its competitors.

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ritchie Bros. Auctioneers Incorporated

We have audited the consolidated balance sheets of Ritchie Bros. Auctioneers Incorporated (the "Company") as at December 31, 2002 and 2001 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Vancouver, Canada  
February 14, 2003

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Expressed in thousands of United States Dollars)

Year Ended December 31	2002	2001	2000
Auction revenues	\$ 133,552	\$ 116,991	\$ 106,125
Direct expenses	(19,684)	(18,861)	(17,936)
	113,868	98,130	88,189
Expenses			
Depreciation and amortization	9,208	9,076	7,761
General and administrative	63,786	56,517	52,942
	72,994	65,593	60,703
Earnings from operations	40,874	32,537	27,486
Other income (expenses)			
Interest expense	(4,302)	(4,024)	(3,378)
Other	2,455	1,409	1,252
	(1,847)	(2,615)	(2,126)
Earnings before income taxes	39,027	29,922	25,360
Income taxes (note 10)			
Current	8,097	6,720	7,979
Withholding taxes on intercompany dividend	—	2,000	—
Future	2,559	1,148	176
	10,656	9,868	8,155
Net earnings	\$ 28,371	\$ 20,054	\$ 17,205
Net earnings per share (notes 1(l) and 8(e))			
Basic	\$ 1.69	\$ 1.20	\$ 1.03
Diluted	1.68	1.19	1.02
Weighted average number of shares outstanding	16,793,202	16,761,247	16,743,433

Approved on behalf of the Board of Directors



G. EDWARD MOULL  
Director



DAVID E. RITCHIE  
Director

See accompanying notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of United States Dollars)

December 31	2002	2001
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 62,222	\$ 49,533
Accounts receivable	13,700	12,375
Inventory	7,402	3,027
Prepaid expenses and deposits	2,060	1,327
Income taxes recoverable	2,485	1,410
	87,869	67,672
Capital assets (note 3)	193,490	170,919
Funds committed for debt repayment (note 7)	13,000	7,893
Future income tax asset (note 10)	—	593
Other assets	421	—
Goodwill (notes 2(a), 4 and 6)	34,356	28,466
	\$ 329,136	\$ 275,543
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Auction proceeds payable	\$ 17,360	\$ 11,807
Accounts payable and accrued liabilities	33,544	23,274
Short-term debt (note 5)	2,758	5,314
Current bank term loans (note 7)	8,764	7,998
	62,426	48,393
Bank term loans (note 7)	62,612	61,217
Other liabilities (note 6)	2,758	—
Future income tax liability (note 10)	1,966	—
	129,762	109,610
Shareholders' equity:		
Share capital (note 8)	69,499	69,134
Additional paid-in capital	4,646	4,332
Retained earnings	129,542	101,311
Foreign currency translation adjustment	(4,453)	(8,844)
	199,374	165,933
	\$ 329,136	\$ 275,543

Commitments and Contingencies (note 11)

Subsequent Events (note 8(c))

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Expressed in thousands of United States Dollars)

	Share capital	Additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Total shareholders' equity
Balance, December 31, 1999	\$ 69,130	\$ 4,332	\$ 64,052	\$ (3,119)	\$ 134,395
Net proceeds on stock options exercised	2	—	—	—	2
Net earnings	—	—	17,205	—	17,205
Foreign currency translation adjustment	—	—	—	(2,838)	(2,838)
Balance, December 31, 2000	69,132	4,332	81,257	(5,957)	148,764
Net proceeds on stock options exercised	2	—	—	—	2
Net earnings	—	—	20,054	—	20,054
Foreign currency translation adjustment	—	—	—	(2,887)	(2,887)
Balance December 31, 2001	69,134	4,332	101,311	(8,844)	165,933
Net proceeds on stock options exercised	365	—	—	—	365
Stock compensation tax adjustment	—	314	—	—	314
Net earnings	—	—	28,371	—	28,371
Foreign currency translation adjustment	—	—	—	4,391	4,391
Balance December 31, 2002	\$ 69,499	\$ 4,646	\$ 129,682	\$ (4,453)	\$ 199,374

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States Dollars)

Year Ended December 31	2002	2001	2000
Cash provided by (used in)			
Operating activities:			
Net earnings	\$ 28,371	\$ 20,054	\$ 17,205
Items not involving the use of cash			
Depreciation	9,208	7,426	6,110
Amortization of goodwill	—	1,650	1,651
Future income taxes	2,559	1,148	176
Net gain on disposition of capital assets	(758)	(721)	—
Changes in non-cash working capital:			
Accounts receivable	(1,325)	(1,810)	(920)
Inventory	(4,375)	6,148	(5,116)
Prepaid expenses and deposits	(733)	(93)	(13)
Income taxes recoverable	(1,075)	(499)	(46)
Auction proceeds payable	5,553	(11,749)	7,378
Accounts payable and accrued liabilities	10,270	(5,572)	10,955
Other	(653)	447	655
	47,042	16,429	38,035
Investing activities:			
Acquisition of business (note 6)	(8,743)	—	—
Capital asset additions	(29,037)	(38,098)	(46,539)
Proceeds on disposition of capital assets	4,789	5,221	—
Increase in other assets	(421)	—	—
	(33,412)	(32,877)	(46,539)
Financing activities:			
Issuance of share capital	365	2	2
Increase in paid up capital	314	—	—
Issuance of bank term loans	5,000	8,139	26,669
Repayment of bank term loans	(3,628)	(3,270)	(2,045)
Increase in other liabilities	2,758	—	—
Increase (decrease) in short-term debt	(2,556)	3,257	(4,472)
Increase in funds committed for debt repayment	(5,107)	(4,643)	(3,250)
	(2,854)	3,485	16,904
Effect of foreign currency rates on cash and cash equivalents	1,913	(939)	(886)
Increase (decrease) in cash and cash equivalents	12,689	(13,902)	7,514
Cash and cash equivalents, beginning of year	49,533	63,435	55,921
Cash and cash equivalents, end of year	\$ 62,222	\$ 49,533	\$ 63,435
Supplemental information			
Interest paid	\$ 3,951	\$ 3,821	\$ 3,948
Income taxes paid	8,861	9,233	8,123

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts expressed in thousands of United States Dollars)

Years ended December 31, 2002, 2001 and 2000

### 1. Significant Accounting Policies

(a) *Basis of presentation*

These consolidated financial statements present the financial position, results of operations and changes in shareholders' equity and cash flows of Ritchie Bros. Auctioneers Incorporated (the "Company"), a company incorporated in July 1997 under the Canada Business Corporations Act, and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada which, except as disclosed in note 12, also comply, in all material respects, with generally accepted accounting principles in the United States.

(b) *Cash and cash equivalents*

Cash equivalents consist of highly liquid investments having an original term to maturity of three months or less when acquired.

(c) *Inventory*

Inventory is primarily represented by goods held for auction and has been valued at the lower of cost, determined by the specific identification method, and net realizable value.

(d) *Capital assets*

All capital assets are stated at cost and include capitalized interest on property under development. Depreciation is provided to charge the cost of the assets to operations over their estimated useful lives based on their usage predominantly as follows:

<u>Asset</u>	<u>Basis</u>	<u>Rate/term</u>
Improvements	declining balance	10%
Buildings	straight-line	30 years
Automotive equipment	declining balance	30%
Computer equipment	declining balance	30%
Computer software	straight-line	3 years
Yard equipment	declining balance	20-30%
Office equipment	declining balance	20%
Leasehold improvements	straight-line	Terms of leases

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In such situations, long-lived assets are considered impaired when undiscounted estimated future cash flows resulting from the use of the asset and its eventual disposition are less than the asset's carrying amount.

(e) *Goodwill*

Goodwill represents non-identifiable intangible assets acquired on business combinations. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the goodwill against its implied fair value. To the extent that the carrying amount of goodwill exceeds its fair value, an impairment loss is charged against earnings.

(f) *Revenue recognition*

Auction revenues earned in the Company's capacity as agent for consignors of equipment are comprised mostly of auction commissions, but also include net profits on the sale of inventory, incidental interest income, and handling fees on the sale of certain lots. All revenue is recognized when the auction sale is complete and the company has determined that the auction proceeds are collectible.

Auction commissions represent the percentage earned by the Company on the gross proceeds from equipment sold at auction. The majority of auction commissions is earned as a fixed rate of the gross selling price. Other commissions are earned when the Company guarantees a certain level of proceeds to a consignor. This type of commission includes a 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. The Company's exposure from these guarantee contracts fluctuates over time (see note 11(b)). Losses, if any, resulting from guarantee contracts are recorded in the period in which the relevant auction is held.

Auction revenues also include net profit on the sale of inventory items. In some cases, incidental to its regular commission business, the Company temporarily acquires title to items for a short time prior to a particular auction sale. The auction revenue recorded is the net gain or loss on the sale of the items.

(g) *Income taxes*

Income taxes are accounted for using the asset and liability method whereby future taxes are recognized for the tax consequences of temporary differences by applying substantively enacted or enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on future taxes of a change in tax rates is recognized in earnings in the period in which the future tax benefit is enacted. Future tax benefits, such as non-capital loss carryforwards, are recognized to the extent that realization of such benefits is considered more likely than not.

(h) *Foreign currency translation*

The Company's reporting currency is the United States dollar. The functional currency for each of the Company's operations is the currency of the country of residency or the United States dollar. Each of these operations is considered to be self-sustaining. Accordingly, the financial statements of operations of the Company that are not located in the United States 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 average exchange rate for each reporting period for amounts included in the determination of earnings. Any gains or losses from this translation have been included in the foreign currency translation adjustment account which is included as a separate component of shareholders' equity. Monetary assets and liabilities recorded in foreign currencies are translated into the appropriate functional currency at the rate of exchange in effect at the balance sheet date. Foreign currency denominated transactions are translated into the appropriate functional currency at the exchange rate in effect on the date of the transaction. Any exchange gains and losses on these are included in the determination of earnings.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts expressed in thousands of United States Dollars)

Years ended December 31, 2002, 2001 and 2000

### 1. Significant Accounting Policies (continued)

(i) *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant financial statement items requiring the use of estimates include the determination of useful lives for depreciation, the valuation of goodwill and capital assets, and the estimation of future income tax balances. Actual results could differ from such estimates and assumptions.

(j) *Financial instruments*

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, income taxes recoverable, auction proceeds payable, accounts payable and accrued liabilities and short-term debt, approximate their fair value due to their short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of its bank term loans approximates fair value.

(k) *Credit risk*

The Company does not extend credit to purchasers of auctioned items. Equipment is not normally released to the purchasers until it is paid for in full.

(l) *Net earnings per share*

Net earnings per share has been calculated based on the weighted average number of common shares outstanding. Diluted net earnings per share has been calculated after giving effect to outstanding dilutive options calculated by the treasury stock method (note 8(e)).

(m) *Stock-based compensation*

The Company has a stock-based compensation plan, which is described in note 8(d). The Company recognizes compensation expense using the intrinsic value method at the date of grant. The pro forma effect of accounting for stock option grants using the fair value accounting method is presented in note 8(d). Compensation expense is recognized over the vesting period of the underlying grant. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

(n) *Comparative figures*

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

### 2. Changes in Accounting Policies

(a) *Goodwill*

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new handbook section 3062 regarding goodwill. Under section 3062, goodwill is not amortized but is tested for impairment at least annually. Section 3062 requires the assignment of all assets, including goodwill, and liabilities to reporting units and assessments for impairment to be made at the reporting unit level. The Company currently considers itself to have a single reporting unit. The impairment test compares the carrying amount of the goodwill against its implied fair value. To the extent that the carrying amount of goodwill exceeds its fair value, an impairment loss is charged against income.

As of January 1, 2002, the Company had goodwill in the amount of \$28,466,000 which is no longer being amortized. This change in accounting policy at January 1, 2002 resulted in a reduction of amortization expense related to goodwill of \$1,650,000 (\$1,086,500 net of taxes) for the year ended December 31, 2002 from that which would have been reported under the Company's previous accounting policy.

In accordance with the requirements of section 3062, this change in accounting policy has not been applied retroactively and the amounts presented for prior periods have not been restated to reflect this change. Had the Company adopted this change in accounting policy retroactively, the effect on the prior year would have been as indicated below.

Year ended December 31	2002	2001	2000
Net earnings as reported	\$ 28,371	\$ 20,054	\$ 17,205
Goodwill amortized in year, net of taxes	—	1,007	1,007
Adjusted net earnings	\$ 28,371	\$ 21,061	\$ 18,212
Net earnings per share as reported:			
Basic	\$ 1.69	\$ 1.20	\$ 1.03
Diluted	1.68	1.19	1.02
Adjusted net earnings per share:			
Basic	\$ 1.69	\$ 1.26	\$ 1.09
Diluted	1.68	1.25	1.08

(b) *Stock-based compensation*

Effective January 1, 2002, the Company adopted the CICA new handbook section 3870 regarding stock-based compensation and other stock-based payments. The new standard is applied prospectively to all stock-based compensation issued on or after January 1, 2002. The Company uses the intrinsic value method to account for stock-based employee compensation awards; however, under section 3870, the Company is required to disclose the pro forma effect of accounting for these awards under the fair value method (see note 8(d)).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts expressed in thousands of United States Dollars)

Years ended December 31, 2002, 2001 and 2000

### 3. Capital Assets

December 31, 2002	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 96,377	\$ 10,234	\$ 86,143
Land and improvements	87,265	2,539	84,726
Land and buildings under development	5,001	—	5,001
Automotive equipment	8,954	3,444	5,510
Yard equipment	6,644	2,902	3,742
Office equipment	4,874	2,492	2,382
Computer equipment	3,463	1,397	2,066
Computer software	5,766	2,613	3,153
Leasehold improvements	1,207	440	767
	<u>\$ 219,551</u>	<u>\$ 26,061</u>	<u>\$ 193,490</u>

December 31, 2001	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 70,731	\$ 7,154	\$ 63,577
Land and improvements	69,820	2,040	67,780
Land and buildings under development	25,607	—	25,607
Automotive equipment	8,366	3,095	5,271
Yard equipment	4,803	2,293	2,510
Office equipment	4,135	1,970	2,165
Computer equipment	3,325	1,845	1,480
Computer software	3,182	1,334	1,848
Leasehold improvements	1,008	327	681
	<u>\$ 190,977</u>	<u>\$ 20,058</u>	<u>\$ 170,919</u>

During the year, interest of \$1,458,000 (2001 —\$1,697,000) was capitalized to the cost of buildings under development.

### 4. Goodwill

December 31	2002	2001
Goodwill	\$ 38,893	\$ 33,003
Accumulated amortization	4,537	4,537
	<u>\$ 34,356</u>	<u>\$ 28,466</u>

Goodwill at December 31, 2002 includes the goodwill recorded from acquisitions during the year (note 6).

### 5. Short-Term Debt

Short-term debt consists of draws on lines of credit in the amounts of \$1,520,000 and \$1,238,000 with a weighted average interest rate of 5.12%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts expressed in thousands of United States Dollars)

Years ended December 31, 2002, 2001 and 2000

### 6. Acquisition

On August 1, 2002, the Company acquired certain assets of All Peace Auctions (2001) Ltd., an industrial and agricultural equipment auctioneer, and All Peace Auctions Ltd., the owner of the property on which the majority of auction business was conducted (collectively, 'All Peace'). All Peace was based in Grande Prairie, Alberta, Canada.

The aggregate purchase price was \$9,111,000 plus costs of approximately \$79,000. The purchase price was settled through the payment of \$5,409,000 of cash and future annual installments totaling \$3,781,000 with a present value of \$3,255,000 at the date of acquisition. To reflect the fact that the future payments are due over time, \$526,000 was recorded as a discount to the long-term liability and is being amortized to interest expense over the four-year term of repayment. The future installments are unsecured and non-interest bearing. The total purchase price including expenses net of discount was \$8,664,000.

The following table summarizes the estimated fair value of the assets acquired and the consideration paid at the date of acquisition:

Capital assets	\$ 2,809
Goodwill	5,855
<b>Net assets acquired</b>	<b>\$ 8,664</b>
Cash paid	\$ 5,409
Present value of future payments at date of acquisition	3,255
<b>Total consideration</b>	<b>\$ 8,664</b>

Other liabilities at December 31, 2002 are as follows:

Present value of future payments at December 31, 2002	\$ 3,356
Current portion	598
<b>Other liabilities</b>	<b>\$ 2,758</b>

75% of the balance of goodwill (including the amount of the discount) will be deductible for income tax purposes in future periods.

All Peace was acquired to expand the Company's presence in northern Alberta. All Peace was a leading auction company in that market and had strong customer relationships in the industrial and agricultural sectors.

### 7. Bank Term Loans

December 31	2002	2001
Term loans, unsecured, bearing interest between 7.1% and 7.21%, due in minimum annual installments of \$5 million (\$1.75 million towards principal, \$3.25 million towards a sinking fund) plus interest, with the final payment occurring in 2004	\$ 29,750	\$ 31,500
Term loans, denominated in Canadian dollars, unsecured, bearing interest between 6.355% and 7.195%, due in monthly installments of interest only, with the full amount of the principal due in 2004	9,509	9,417
Term loans, unsecured, bearing interest between 7.81% and 7.91%, due in minimum annual installments of \$500,000 plus interest, with final payment occurring in 2005	9,000	9,500
Term loans, unsecured, bearing interest between 5.95% and 7.91%, due in minimum annual installments of \$2.9 million (\$1.0 million towards principal, \$1.9 million towards a sinking fund), with the final payment occurring in 2005 and 2006	18,250	14,250
Term loans, denominated in Australian dollars, secured by deeds of trust on specific property, bearing interest between the Australian prime rate and 6.5%, due in quarterly installments of AUD75,000, plus interest, with final payment occurring in 2008	999	1,062
Term loan denominated in Euros, secured by deeds of trust on specific property, bearing interest at the Amsterdam Interbank Offered Rate plus 0.88%, due in quarterly installments of EUR56,723 including interest, with the final payment occurring in 2013	3,868	3,486
	71,376	69,215
Current portion	8,764	7,998
	<b>\$ 62,612</b>	<b>\$ 61,217</b>
Funds committed for debt payment	13,000	7,893
	<b>\$ 49,612</b>	<b>\$ 53,324</b>

As at December 31, 2002, principal repayments including sinking fund requirements are as follows for the next five years:

2003	\$ 8,764
2004	38,023
2005	13,621
2006	7,728
2007	407
Thereafter	2,833
	<b>\$ 71,376</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts expressed in thousands of United States Dollars)

Years ended December 31, 2002, 2001 and 2000

### 8. Share Capital

#### (a) Authorized

Unlimited number of common shares, without par value.  
 Unlimited number of senior preferred shares, without par value, issuable in series.  
 Unlimited number of junior preferred shares, without par value, issuable in series.

#### (b) Issued

Issued and outstanding, December 31, 1999	16,733,264
Number of common shares issued during the year ended December 31, 2000:	
For cash, pursuant to stock options exercised	15,299
<hr/>	
Issued and outstanding, December 31, 2000	16,748,563
Number of common shares issued during the year ended December 31, 2001:	
For cash, pursuant to stock options exercised	18,667
<hr/>	
Issued and outstanding, December 31, 2001	16,767,230
Number of common shares issued during the year ended December 31, 2002:	
For cash, pursuant to stock options exercised	42,102
<hr/>	
Issued and outstanding, December 31, 2002	16,809,332

#### (c) Options

The Company has a stock option plan that provides for the award of stock options to selected employees, directors and officers of the Company and to other persons approved by the Board of Directors. At December 31, 2002, there were 911,717 (2001 —4,004,917) shares authorized and available for grants of options under the stock option plan. Stock option activity for 2000, 2001 and 2002 is presented below:

	Number of Options Outstanding	Weighted Average Exercise Price
Outstanding, December 31, 1999	195,236	\$ 9.20
Granted	78,000	26.66
Cancelled	(16,301)	5.00
Exercised	(15,299)	0.10
Outstanding, December 31, 2000	241,636	15.70
Granted	157,750	23.44
Cancelled	(4,000)	24.60
Exercised	(18,667)	0.10
Outstanding, December 31, 2001	376,719	19.62
Granted	93,200	26.10
Exercised	(42,102)	8.68
Outstanding, December 31, 2002	427,817	\$ 22.11
Exercisable, December 31, 2002	286,617	\$ 20.29

The options outstanding at December 31, 2002 expire on dates ranging to February 11, 2012.

The following is a summary of stock options outstanding and exercisable at December 31, 2002:

Range of exercise prices	Number Outstanding	Options Outstanding		Options exercisable	
		Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.10	57,867	1.58	\$ 0.10	57,867	\$ 0.10
\$23.35 —\$38.625	369,950	7.43	25.55	228,750	25.40
	427,817			286,617	

Subsequent to December 31, 2002 the Company granted options to purchase a total of 154,400 common shares of the Company to certain employees and directors of the Company. The options have an exercise price of \$31.05 per share and an expiry date of January 30, 2013.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts expressed in thousands of United States Dollars)

Years ended December 31, 2002, 2001 and 2000

### 8. Share Capital (continued)

#### (d) Stock based compensation plan

The Company uses the intrinsic value method to account for stock-based compensation awards. This method did not result in any compensation expense for the period. Had compensation expense for option grants made under the Company's stock option plan since December 31, 2001 been recorded in accordance with the fair value method at the applicable grant dates, the Company's net earnings for 2002 would have been reduced as indicated by the pro forma amounts below:

Year ended December 31, 2002	Earnings	Per Share Amount	
		Basic	Diluted
Net earnings:			
As reported	\$ 28,371	\$ 1.69	\$ 1.65
Adjusted	\$ 27,644	\$ 1.68	\$ 1.63

The fair value of the 2002 option grants was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5%; dividend yield of 0%; expected lives of 5 years; and volatility of 27%. The weighted average grant date fair value of options granted in the year ended December 31, 2002 was \$8.74 per option. The fair value method requires that this amount be amortized over the relevant vesting periods of the underlying options.

#### (e) Net earnings per share

Year ended December 31, 2002	Earnings	Shares	Per Share Amount
Basic net earnings per share	\$ 28,371	16,793,202	\$ 1.69
Effect of dilutive securities:			
Share options	—	122,222	(0.01)
Diluted net earnings per share	\$ 28,371	16,915,424	\$ 1.68

As at December 31, 2002, the Company had 10,000 stock options outstanding with an exercise price of \$38.625 per share. These options were not included in the computation of diluted net earnings per share because the options' exercise price was greater than the average market price of the Company's shares for the year then ended.

### 9. Segmented Information

The Company's principal business activity is the sale of consignment and self-owned equipment at auctions. This business represents a single reportable segment.

Summarized information on the Company's activities by geographic segment is as follows:

	United States	Canada	Other	Combined
Year ended December 31, 2002:				
Auction revenues	\$ 84,344	\$ 17,627	\$ 31,581	\$ 133,552
Capital assets and goodwill	135,921	60,176	31,749	227,846
Year ended December 31, 2001:				
Auction revenues	76,272	18,485	22,234	116,991
Capital assets and goodwill	127,702	42,939	28,744	199,385
Year ended December 31, 2000:				
Auction revenues	66,425	18,517	21,183	106,125
Capital assets and goodwill	109,376	30,005	31,356	170,737

### 10. Income Taxes

Income tax expense differs from that determined by applying the United States statutory tax rates to the Company's results of operations as follows:

Year ended December 31	2002	2001
Statutory federal tax rate in the United States	35%	35%
Expected income tax expense	\$ 13,660	\$ 10,473
Differences:		
State taxes in the United States	1,951	1,197
Earnings taxed in other countries	(5,175)	(3,839)
Withholding taxes on intercompany dividend	—	2,000
Other	220	37
Actual income tax expense	\$ 10,656	\$ 9,868

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular dollar amounts expressed in thousands of United States Dollars)

Years ended December 31, 2002, 2001 and 2000

### 10. Income Taxes (continued)

Future income tax assets and liabilities are as follows:

December 31	2002	2001
Future income tax assets (liabilities):		
Capital assets	\$ 397	\$ 777
Tax deductible benefit of options granted	314	471
Tax deductible financing costs incurred in the course of the Company's initial public offering in March 1998	—	435
Unused tax losses, expiring on December 31, 2004 to 2007	1,085	1,613
Other	105	—
Total future income tax assets	1,901	3,296
Valuation allowance	(288)	(761)
Net future income tax assets	1,613	2,535
Future income tax liabilities arising from temporary differences between the tax basis of net assets and their carrying value:		
Capital assets	(2,064)	(1,350)
Goodwill	(1,515)	(592)
Total future income tax liabilities	(3,579)	(1,942)
	\$ (1,966)	\$ 593

### 11. Commitments and Contingencies

#### (a) Operating Leases

The Company is party to certain operating leases. These operating leases relate to auction sites located in the United Arab Emirates, Mexico, the United States, Australia and Singapore, and to automobile leases. The future minimum lease payments as at December 31, 2002 are approximately as follows:

2003	\$ 1,077
2004	1,088
2005	1,097
2006	938
2007	483
Thereafter	725

Total rent expenses in respect of these leases for the year ended December 31, 2002 was \$1,069,000 (2001 –\$689,000; 2000 –\$615, 000).

#### (b) Contingencies

Certain of the Company's operating leases for auction sites contain clauses that require the Company to return the auction site to the state and condition in which it was at the inception of the lease if the Company terminates the lease or does not renew it at the end of the lease term. The occurrence and amount of the potential liability, if any, for these site restoration costs is not determinable at the date of these financial statements.

In certain situations the company will guarantee to a consignor a minimum level of proceeds in connection with the sale at auction of that consignor's equipment (note 1(f)). At December 31, 2002 the company had no outstanding guarantees under contract.

### 12. United States Generally Accepted Accounting Principles

The consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which differ, in certain respects, from accounting practices generally accepted in the United States and from requirements promulgated by the Securities and Exchange Commission. However, for the years ended December 31, 2002, 2001 and 2000, net earnings in accordance with Canadian GAAP equals net earnings in accordance with United States GAAP.

US GAAP requires the preparation of a statement of comprehensive income. Comprehensive income is defined as the change in equity of a business enterprise during the period from transactions and other events and circumstances from non-owner sources. The statement of comprehensive income reconciles the reported net earnings to the comprehensive income amount as follows:

Year ended December 31	2002	2001	2000
Net earnings in accordance with Canadian and United States GAAP	\$ 28,371	\$ 20,054	\$ 17,205
Other comprehensive income (loss):			
Foreign currency translation adjustment	4,391	(2,887)	(2,838)
Comprehensive income in accordance with United States GAAP	\$ 32,762	\$ 17,167	\$ 14,367

Accumulated other comprehensive income (loss), which under U.S. GAAP is presented as a separate component of shareholders' equity, is comprised of the following:

December 31	Foreign currency translation adjustment		
	2002	2001	2000
Balance, beginning of year	\$ (8,844)	\$ (5,957)	\$ (3,119)
Current period change	4,391	(2,887)	(2,838)
Balance, end of year	\$ (4,453)	\$ (8,844)	\$ (5,957)