

Consolidated Financial Statements of

**RITCHIE BROS. AUCTIONEERS  
INCORPORATED**

Years ended December 31, 2008 and 2007

## **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, 2008 and 2007 and the consolidated statements of operations, shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2008. 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. With respect to the consolidated financial statements for the years ended December 31, 2008 and 2007, we also conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**/s/ KPMG LLP**

Chartered Accountants

Vancouver, Canada

February 23, 2009

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited Ritchie Bros. Auctioneers Incorporated (the "Company")'s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the section entitled Internal Controls over Financial Reporting included in Management's Discussion and Analysis. Our responsibility is to express an opinion the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have conducted our audits on the consolidated financial statements in accordance with Canadian generally accepted auditing standards. With respect to the years ended December 31, 2008 and 2007, we also have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our report dated February 23, 2009 expressed an unqualified opinion on those consolidated financial statements.

**/s/ KPMG LLP**

Chartered Accountants

Vancouver, Canada

February 23, 2009

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Operations

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

Years ended December 31,	2008	2007	2006
Auction revenues	\$ 354,818	\$ 311,906	\$ 257,857
Direct expenses	49,750	46,481	40,457
	305,068	265,425	217,400
Expenses:			
Depreciation and amortization	24,764	19,417	15,017
General and administrative	164,556	144,816	117,714
	189,320	164,233	132,731
Earnings from operations	115,748	101,192	84,669
Other income (expense):			
Interest expense	(859)	(1,206)	(1,172)
Interest income	4,994	7,393	6,664
Foreign exchange gain (loss)	11,656	2,802	(451)
Gain on disposition of capital assets	6,370	243	1,277
Other	1,375	1,471	1,079
	23,536	10,703	7,397
Earnings before income taxes	139,284	111,895	92,066
Income tax expense (recovery) (note 8):			
Current	39,101	33,797	33,757
Future	(1,217)	2,115	1,091
	37,884	35,912	34,848
Net earnings	\$ 101,400	\$ 75,983	\$ 57,218
Net earnings per share (note 6(e)):			
Basic	\$ 0.97	\$ 0.73	\$ 0.55
Diluted	0.96	0.72	0.55
Weighted average number of shares outstanding	104,713,375	104,266,113	103,639,380

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

/s/ Beverley A. Briscoe

Beverley A. Briscoe  
Director

/s/ Peter J. Blake

Peter J. Blake  
Director and Chief Executive Officer

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Balance Sheets

(Expressed in thousands of United States dollars)

December 31,	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 107,275	\$ 150,315
Accounts receivable	60,375	67,716
Inventory	9,711	6,031
Advances against auction contracts	285	658
Prepaid expenses and deposits	12,088	5,766
Other assets	752	-
Income taxes receivable	2,674	5,921
Future income tax asset (note 8)	780	778
	<u>193,940</u>	<u>237,185</u>
Capital assets (note 4)	453,642	390,044
Other assets	1,164	2,031
Goodwill	40,233	42,612
Future income tax asset (note 8)	509	1,015
	<u>\$ 689,488</u>	<u>\$ 672,887</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Auction proceeds payable	\$ 62,717	\$ 80,698
Accounts payable and accrued liabilities	84,114	98,039
Current portion of long-term debt (note 5)	-	241
	<u>146,831</u>	<u>178,978</u>
Long-term debt (note 5)	67,411	44,844
Other liabilities	60	385
Future income tax liability (note 8)	10,024	13,564
	<u>224,326</u>	<u>237,771</u>
Shareholders' equity:		
Share capital (note 6)	94,366	90,223
Additional paid-in capital	14,355	12,471
Retained earnings	357,845	292,046
Accumulated other comprehensive income (loss)	(1,404)	40,376
	<u>465,162</u>	<u>435,116</u>
	<u>\$ 689,488</u>	<u>\$ 672,887</u>

Commitments and contingencies (note 9)

See accompanying notes to consolidated financial statements.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Shareholders' Equity  
(Expressed in thousands of United States dollars)

	Share Capital	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2005	\$ 79,844	\$ 8,929	\$ 217,080	\$ 19,330	\$ 325,183
Exercise of stock options	6,066	(881)	-	-	5,185
Stock compensation tax adjustment	-	391	-	-	391
Stock compensation expense	-	2,020	-	-	2,020
Net earnings	-	-	57,218	-	57,218
Cash dividends paid	-	-	(26,949)	-	(26,949)
Foreign currency translation adjustment	-	-	-	5,589	5,589
Balance, December 31, 2006	85,910	10,459	247,349	24,919	368,637
Exercise of stock options	4,313	(688)	-	-	3,625
Stock compensation tax adjustment	-	722	-	-	722
Stock compensation expense	-	1,978	-	-	1,978
Net earnings	-	-	75,983	-	75,983
Cash dividends paid	-	-	(31,286)	-	(31,286)
Foreign currency translation adjustment	-	-	-	15,457	15,457
Balance, December 31, 2007	90,223	12,471	292,046	40,376	435,116
Exercise of stock options	4,143	(625)	-	-	3,518
Stock compensation tax adjustment	-	198	-	-	198
Stock compensation expense	-	2,311	-	-	2,311
Net earnings	-	-	101,400	-	101,400
Cash dividends paid	-	-	(35,601)	-	(35,601)
Foreign currency translation adjustment	-	-	-	(26,896)	(26,896)
Reclassification to net earnings of foreign currency translation gains	-	-	-	(14,884)	(14,884)
Balance, December 31, 2008	\$ 94,366	\$ 14,355	\$ 357,845	\$ (1,404)	\$ 465,162

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

Years ended December 31,	2008	2007	2006
Net earnings	\$ 101,400	\$ 75,983	\$ 57,218
Other comprehensive income (loss):			
Foreign currency translation adjustment	(26,896)	15,457	5,589
Reclassification to net earnings of foreign currency translation gains	(14,884)	-	-
Comprehensive income	\$ 59,620	\$ 91,440	\$ 62,807

See accompanying notes to consolidated financial statements.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)

Years ended December 31,	2008	2007	2006
Cash provided by (used in):			
Operating activities:			
Net earnings	\$ 101,400	\$ 75,983	\$ 57,218
Items not involving cash:			
Depreciation and amortization	24,764	19,417	15,017
Stock compensation expense	2,311	1,978	2,020
Future income taxes	(1,217)	2,115	1,091
Foreign exchange loss (gain)	(11,656)	(2,802)	451
Net gain on disposition of capital assets	(6,370)	(243)	(1,277)
Changes in non-cash working capital:			
Accounts receivable	(6,770)	(22,198)	(14,097)
Inventory	(4,758)	244	4,663
Advances against auction contracts	100	847	(1,207)
Prepaid expenses and deposits	(6,987)	153	(2,353)
Income taxes receivable	3,420	1,717	(3,601)
Income taxes payable	-	(3,880)	(10,632)
Auction proceeds payable	8,355	3,138	660
Accounts payable and accrued liabilities	(9,704)	26,922	19,766
Other	(2,200)	(2,122)	(2,080)
	90,688	101,269	65,639
Investing activities:			
Acquisition of business	-	(597)	(2,300)
Capital asset additions	(145,024)	(113,219)	(51,239)
Proceeds on disposition of capital assets	33,813	8,455	5,160
Decrease (increase) in other assets	1,000	(364)	1,832
	(110,211)	(105,725)	(46,547)
Financing activities:			
Issuance of share capital	3,518	3,625	5,185
Dividends on common shares	(35,601)	(31,286)	(26,949)
Issuance of short-term debt	37,077	33,415	-
Repayment of short-term debt	(36,459)	(33,908)	-
Issuance of long-term debt	25,566	-	-
Repayment of long-term debt	(238)	(251)	(227)
Other	(57)	640	335
	(6,194)	(27,765)	(21,656)
Effect of changes in foreign currency rates on cash and cash equivalents			
	(17,323)	10,515	5,336
Increase (decrease) in cash and cash equivalents	(43,040)	(21,706)	2,772
Cash and cash equivalents, beginning of year	150,315	172,021	169,249
Cash and cash equivalents, end of year	\$ 107,275	\$ 150,315	\$ 172,021
Supplemental information:			
Interest paid	\$ 3,476	\$ 3,078	\$ 2,186
Income taxes paid	34,629	36,089	47,924

See accompanying notes to consolidated financial statements.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements  
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

Years ended December 31, 2008, 2007 and 2006

## 1. Significant accounting policies:

### (a) Basis of presentation:

These consolidated financial statements present the financial position, results of operations and cash flows of Ritchie Bros. Auctioneers Incorporated (the "Company"), a company amalgamated in December 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 13, 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 as follows:

Asset	Basis	Rate/term
Improvements	declining balance	10%
Buildings	straight-line	30 years
Computer software	straight-line	3 - 5 years
Yard equipment	declining balance	20-30%
Automotive equipment	declining balance	30%
Computer equipment	straight-line	3 years
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.

Legal obligations to retire tangible long-lived assets and assets under operating leases are recorded at the fair value in the period in which they are incurred, if a reasonable estimate of fair value can be made, with a corresponding increase in asset value. The liability is accreted to face value over the life of the asset. The Company does not have any significant asset retirement obligations.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements  
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## 1. Significant accounting policies (continued):

### (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 are comprised mostly of auction commissions, which are earned by the Company acting as an agent for consignors of equipment and other assets, but also include net profits on the sale of inventory, internet and proxy purchase fees, administrative and documentation fees on the sale of certain lots, and auction advertising fees. 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 and other assets sold at auction. The majority of auction commissions is earned as a pre-negotiated 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 typically includes 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 to be sold after a period end is known 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 (see note 9(b)).

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 new tax rate is substantively enacted. Future tax benefits, such as non-capital loss carry forwards, are recognized to the extent that realization of such benefits is considered more likely than not.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements  
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

Years ended December 31, 2008, 2007 and 2006

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## 1. Significant accounting policies (continued):

### (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 usually the currency of the country of residency; in some cases it is the United States dollar. Each of the Company's foreign operations is considered to be self-sustaining. Accordingly, the financial statements of the Company's operations 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 average exchange rate for each reporting period for amounts included in the determination of earnings. Any gains or losses from the translation of asset and liability amounts have been included in accumulated other comprehensive income, 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.

### (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, the valuation of consignors' equipment and other assets subject to guarantee contracts, and the estimation of the utilization of future income tax asset balances. Actual results could differ from such estimates and assumptions.

### (j) Financial instruments:

The Company classifies its cash and cash equivalents as held-for-trading, which is measured at fair value with changes in fair value being recognized in net earnings. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, auction proceeds payable, and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

Transaction costs are offset against the outstanding principal of the related debts and are amortized using the effective interest rate method.

All derivative instruments, including embedded derivatives, are recorded in the financial statements at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in income unless cash flow hedge accounting is applied, in which case changes in fair value are recorded in other comprehensive income.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements  
(Tabular dollar amounts expressed in thousands of United  
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Years ended December 31, 2008, 2007 and 2006

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## 1. Significant accounting policies (continued):

### (k) 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 6(e)).

### (l) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 6(c) and (d). The Company uses the fair value based method to account for employee stock-based compensation. Under the fair value based method, compensation cost attributable to options granted to employees is measured at the fair value of the underlying option at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized on a straight-line basis over the vesting period of the underlying option. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

### (m) Comparative figures:

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

## 2. Changes in accounting policies:

On January 1, 2008, the Company adopted The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward its presentation requirements. Disclosure requirements pertaining to sections 1535 and 3862 are contained in notes 11 and 12, respectively. The adoption of section 3863 had no impact on the Company's presentation of financial instruments.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements  
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### 3. Future changes in accounting policies:

(a) Goodwill and intangible assets:

The CICA issued Section 3064, Goodwill and Intangible Assets, which is effective for the Company on January 1, 2009. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements and does not expect the effects to be material.

(b) International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles in 2011 for all publicly accountable Canadian enterprises. The Company will be required to report its financial results in accordance with IFRS effective January 1, 2011. The Company is currently assessing the potential impacts of this changeover and developing its plan accordingly.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

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(Tabular dollar amounts expressed in thousands of United  
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Years ended December 31, 2008, 2007 and 2006

## 4. Capital assets:

2008	Cost	Accumulated depreciation	Net book value
Land and improvements	\$ 173,901	\$ 13,649	\$ 160,252
Buildings	163,044	35,153	127,891
Land and buildings under development	112,807	-	112,807
Computer software	25,214	8,000	17,214
Yard equipment	21,831	10,424	11,407
Automotive equipment	17,811	6,868	10,943
Computer equipment	11,629	5,418	6,211
Office equipment	11,138	5,519	5,619
Leasehold improvements	3,436	2,138	1,298
	\$ 540,811	\$ 87,169	\$ 453,642

2007	Cost	Accumulated depreciation	Net book value
Land and improvements	\$ 161,107	\$ 9,865	\$ 151,242
Buildings	160,795	33,247	127,548
Land and buildings under development	65,072	-	65,072
Computer software	19,549	5,137	14,412
Yard equipment	19,270	9,387	9,883
Automotive equipment	17,727	6,591	11,136
Computer equipment	8,820	5,024	3,796
Office equipment	11,549	5,922	5,627
Leasehold improvements	3,111	1,783	1,328
	\$ 467,000	\$ 76,956	\$ 390,044

During the year, interest of \$2,431,000 (2007 - \$1,651,000; 2006 - \$1,480,000) was capitalized to the cost of land and buildings under development.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements  
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## 5. Long-term debt:

	2008	2007
Term loan, unsecured, bearing interest at 5.61%, due in quarterly installments of interest only, with the full amount of the principal due in 2011.	\$ 29,933	\$ 29,904
Revolving loan, denominated in Canadian dollars, unsecured, bearing interest at bankers' acceptance rate plus a margin between 0.65% and 1.00%, due in monthly installments of interest only. The revolving credit facility is available until January 2014.	25,220	-
Term loan, denominated in Canadian dollars, secured by a general security agreement, bearing interest at 4.429%, due in monthly installments of interest only, with the full amount of the principal due in 2010.	12,258	14,940
Term loan, denominated in Australian dollars, secured by deeds of trust on specific property, bearing interest between the prime rate and 6.5%, due in quarterly installments of AUD75, plus interest, with final payments of AUD275 occurring in 2008. The loan was repaid in full in 2008.	-	241
	67,411	45,085
Current portion	-	(241)
Non-current portion	\$ 67,411	\$ 44,844

As at December 31, 2008, principal repayments for the remaining period to the contractual maturity dates are as follows:

2009	-
2010	12,327
2011	30,000
2012	-
2013	-
2014	25,476
	\$ 67,803

As at December 31, 2008, the Company had available committed revolving credit facilities aggregating \$189,524,000, of which \$169,524,000 is available until January 2014. The Company also had uncommitted credit facilities aggregating \$322,792,000, of which \$250,000,000 expires November 2011.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements  
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## 6. 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:

No preferred shares have been issued.  
Common shares issued and outstanding are as follows:

Issued and outstanding, December 31, 2005	103,271,700
<u>Issued for cash, pursuant to stock options exercised</u>	<u>747,600</u>
Issued and outstanding, December 31, 2006	104,019,300
<u>Issued for cash, pursuant to stock options exercised</u>	<u>419,250</u>
Issued and outstanding, December 31, 2007	104,438,550
<u>Issued for cash, pursuant to stock options exercised</u>	<u>449,170</u>
<u>Issued and outstanding, December 31, 2008</u>	<u>104,887,720</u>

The Company's common shares were subdivided on a three-for-one basis effective April 24, 2008. Shareholders of record at the close of business on April 24, 2008 received two additional common shares for each common share held at that date. The stock split effectively tripled the number of common shares and stock options outstanding on that date. All share, stock option and per share information in these consolidated financial statements have been restated to reflect the stock split on a retroactive basis.

### (c) Stock option plan:

The Company has a stock option plan that provides for the award of stock options to selected employees, directors and officers of the Company and to other persons approved by the Board of Directors. Stock options are granted at the fair market value of the Company's common shares at the grant date, with various vesting periods and a term not exceeding 10 years. In 2007, the Company's stock option plan was amended and restated, and an additional 5,059,404 common shares were authorized for stock option grants. At December 31, 2008, there were 6,890,046 (2007 - 7,338,456) shares authorized and available for grants of options under the stock option plan.

# RITCHIE BROS. AUCTIONEERS INCORPORATED

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(Tabular dollar amounts expressed in thousands of United  
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Years ended December 31, 2008, 2007 and 2006

## 6. Share capital (continued):

### (c) Stock option plan (continued):

Stock option activity for 2008, 2007 and 2006 is presented below:

	Common Shares Under Option	Weighted Average Exercise Price
Outstanding, December 31, 2005	2,542,794	\$ 7.30
Granted	617,850	14.70
Exercised	(747,600)	6.93
Outstanding, December 31, 2006	2,413,044	9.31
Granted	489,300	18.67
Exercised	(419,250)	8.65
Cancelled	(8,700)	18.67
Outstanding, December 31, 2007	2,474,394	11.24
Granted	460,710	24.35
Exercised	(449,170)	7.83
Cancelled	(12,300)	24.39
Outstanding, December 31, 2008	2,473,634	\$ 14.23
Exercisable, December 31, 2008	2,021,324	\$ 12.00

The options outstanding at December 31, 2008 expire on dates ranging to September 3, 2018.

The following is a summary of stock options outstanding and exercisable at December 31, 2008:

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
\$ 3.89 - \$ 4.35	200,100	2.6	\$ 4.13	200,100	\$ 4.13
\$ 4.44 - \$ 5.18	228,324	3.8	5.11	228,324	5.11
\$ 8.82 - \$ 10.80	615,000	5.6	9.92	615,000	9.92
\$ 14.23 - \$ 14.70	532,100	7.0	14.67	523,100	14.67
\$ 18.67	454,800	8.2	18.67	454,800	18.67
\$ 24.39 - \$ 25.76	443,310	9.2	24.41	-	-
	2,473,634			2,021,324	

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Notes to Consolidated Financial Statements  
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Years ended December 31, 2008, 2007 and 2006

## 6. Share capital (continued):

### (d) Stock-based compensation:

During 2008, the Company recognized compensation cost of \$2,311,000 (2007 - \$1,978,000; 2006 - \$2,020,000) in respect of options granted under its stock option plan. This amount was calculated in accordance with the fair value method of accounting.

The fair value of the stock option grants was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2008	2007	2006
Risk free interest rate	2.7%	4.5%	4.3%
Expected dividend yield	1.31%	1.50%	1.63%
Expected lives of options	5 years	5 years	5 years
Expected volatility	23.0%	21.8%	21.0%

The weighted average grant date fair value of options granted during the year ended December 31, 2008 was \$5.29 per option (2007 - \$4.43; 2006 - \$3.28). 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, 2008	Net earnings	Shares	Per share amount
Basic net earnings per share	\$ 101,400	104,713,375	\$ 0.97
Effect of dilutive securities:			
Stock options	-	1,060,569	(0.01)
Diluted net earnings per share	\$ 101,400	105,773,944	\$ 0.96

  

Year ended December 31, 2007	Net earnings	Shares	Per share amount
Basic net earnings per share	\$ 75,983	104,266,113	\$ 0.73
Effect of dilutive securities:			
Stock options	-	996,183	(0.01)
Diluted net earnings per share	\$ 75,983	105,262,296	\$ 0.72

  

Year ended December 31, 2006	Net earnings	Shares	Per share amount
Basic net earnings per share	\$ 57,218	103,639,380	\$ 0.55
Effect of dilutive securities:			
Stock options	-	916,620	-
Diluted net earnings per share	\$ 57,218	104,556,000	\$ 0.55

# RITCHIE BROS. AUCTIONEERS INCORPORATED

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Years ended December 31, 2008, 2007 and 2006

## 6. Share capital (continued):

(e) Net earnings per share (continued):

For the year ended December 31, 2008, stock options to purchase 443,310 common shares were outstanding but were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

## 7. Segmented information:

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

The Company determines its activities by geographic segment based on the location of its auctions. Summarized information by geographic segment is as follows:

	United States	Canada	Europe	Other	Combined
Year ended December 31, 2008:					
Auction revenues	\$ 191,459	\$ 75,683	\$ 54,635	\$ 33,041	\$ 354,818
Capital assets and goodwill	280,417	112,799	58,167	42,492	493,875
Year ended December 31, 2007:					
Auction revenues	\$ 173,983	\$ 71,271	\$ 38,771	\$ 27,881	\$ 311,906
Capital assets and goodwill	244,528	118,493	53,405	16,230	432,656
Year ended December 31, 2006:					
Auction revenues	\$ 155,558	\$ 54,306	\$ 28,505	\$ 19,488	\$ 257,857
Capital assets and goodwill	199,659	86,852	25,989	12,128	324,628

## 8. 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:

	2008	2007	2006
Statutory federal and state tax rate in the United States	38.5%	40.0%	40.0%
Expected income tax expense	\$53,624	\$44,758	\$36,826
Differences:			
Earnings taxed in foreign jurisdictions	(12,846)	(10,199)	(3,912)
Settlement of intercompany loan	(3,612)	-	-
Non-deductible expenses	1,793	1,368	1,898
Foreign exchange gains and losses	-	(657)	-
Change in valuation allowance	756	1,009	-
Other	(1,831)	(367)	36
Actual income tax expense	\$37,884	\$35,912	\$34,848

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## 8. Income taxes (continued):

Temporary differences that give rise to future income taxes are as follows:

	2008	2007
Future income tax asset:		
Working capital	\$ 793	\$ 778
Capital assets	360	173
Stock-based compensation	1,061	775
Unused tax losses	3,991	2,380
Other	1,749	298
	7,954	4,404
Valuation allowance	(1,933)	(1,177)
Total future income tax asset	6,021	3,227
Current future income tax asset	793	778
Non-current future income tax asset	5,228	2,449
Future income tax liability:		
Capital assets	(2,933)	(4,422)
Goodwill	(7,089)	(6,354)
Other	(4,734)	(4,222)
Total future income tax liability	(14,756)	(14,998)
Current future income tax liability	-	-
Non-current future income tax liability	(14,756)	(14,998)
Net future income taxes	\$ (8,735)	\$ (11,771)
Presented on balance sheet as:		
Future income tax asset - current	\$ 780	\$ 778
Future income tax asset - non-current	509	1,015
Future income tax liability - non-current	(10,024)	(13,564)
	\$ (8,735)	\$ (11,771)

As at December 31, 2008, the Company has net operating and capital loss carryforwards of approximately \$19,927,000 available to reduce future taxable income, of which \$3,918,000 expire through 2028, and \$16,009,000 remain indefinitely. The Company has recorded a valuation allowance of \$8,764,000 against these losses.

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## 9. Commitments and contingencies:

### (a) Operating leases:

The Company is party to certain operating leases relating to auction sites and offices located in Canada, the United States, Mexico, Italy, Spain, the Netherlands, the United Arab Emirates, Australia, Singapore, India, Japan and China.

In 2008, the Company entered into a sale-leaseback arrangement for its new headquarters building under construction and committed to a long-term lease of the property with the purchaser upon construction completion.

The future minimum lease payments as at December 31, 2008 are approximately as follows:

2009	\$	4,967
2010		7,110
2011		6,743
2012		5,410
2013		4,716
Thereafter		85,964

Total rent expenses in respect of these leases for the year ended December 31, 2008 was \$3,449,000 (2007 - \$2,131,000; 2006 - \$1,796,000).

### (b) Contingencies:

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

In the normal course of its 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, 2008, outstanding guarantees under contract for industrial equipment to be sold prior to the end of the first quarter of 2009 totaled \$5,829,000 (December 31, 2007 - \$29,134,000 sold prior to the end of the second quarter of 2008). The Company also had guarantees under contract totaling \$12,094,000 relating to agricultural auctions to be held prior to the end of the second quarter of 2009 (December 31, 2007 - \$26,559,000 sold prior to the end of the second quarter of 2008). The outstanding guarantee amounts are undiscounted and before estimated proceeds from sale at auction. No liability has been recorded with respect to these contracts.

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## 10. Transactions with related parties:

The Company did not enter into any related party transactions in 2008 and 2007. During the year ended December 31, 2006, the Company paid \$727,000 to a company controlled by the former Chairman of the Company's Board of Directors. The costs were incurred pursuant to agreements, approved by the Company's Board of Directors, by which the related company agrees to provide meeting rooms, accommodations, meals and recreational activities at its facilities on Stuart Island in British Columbia, Canada, for certain of the Company's customers and guests. The agreements set forth the fees and costs per excursion, which are based on market prices for similar types of facilities and excursions. The Company has entered into similar agreements in the past. With the former Chairman's retirement effective November 30, 2006, the company controlled by the former Chairman is no longer considered to be a related party.

## 11. Capital risk management:

The Company's objectives when managing its capital are to maintain a financial position suitable for providing financial capacity and flexibility to meet its growth strategies, to provide an adequate return to shareholders, and to return excess cash through the payment of dividends. The Company's invested capital is defined as the sum of shareholders' equity and long-term debt.

The Company is not subject to any statutory capital requirements, and has not made any changes with respect to its overall capital management strategy during the year ended December 31, 2008.

## 12. Financial Instruments:

### (a) Fair value

Carrying amounts of certain of the Company's financial instruments, including accounts receivable, auction proceeds payable, and accounts payable and accrued liabilities approximate their fair values due to their short terms to maturity. Based on borrowing rates currently available to the Company for loans with similar terms, the fair value of its long-term loans as at December 31, 2008 was approximately \$69,756,000 (2007 - \$45,676,000).

### (b) Financial risk management

The Company is exposed to a variety of financial risks by virtue of its activities, including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the oversight of the Company's risk management.

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## 12. Financial Instruments (continued):

### (b) Financial risk management (continued):

#### *Foreign exchange risk*

The Company operates internationally and is exposed to currency risk, primarily relating to the Canadian and U.S. dollars, and the Euro, arising from sales, purchases and loans that are denominated in currencies other than the respective functional currencies of the Company's international operations. The Company also has various investments in non-U.S. dollar self-sustaining operations, whose net assets are exposed to foreign currency translation risk. The Company has elected not to actively manage this exposure at this time. Refer to further discussion in the section entitled Quantitative and Qualitative Disclosure about Market Risk contained in the Company's Management Discussion and Analysis.

For the year ended December 31, 2008, with other variables unchanged, a 1% strengthening (weakening) of the U.S. dollar against the Canadian dollar and Euro would impact the Company's financial statements as follows:

- decrease (increase) net earnings by approximately \$600,000 due to the translation of the foreign operations' statements of operations into the Company's reporting currency, the U.S. dollar;
- decrease (increase) net earnings by approximately \$150,000 due to the revaluation of significant foreign currency denominated monetary items; and
- decrease (increase) other comprehensive income by approximately \$1,900,000.

#### *Interest rate risk*

Our interest rate risk mainly arises from the interest rate impact on the Company's cash and cash equivalents and floating rate debt. The Company's interest rate management policy is generally to borrow at fixed rates. However, floating rate funding may be used if the terms of borrowings are favorable. The Company will consider utilizing derivative instruments such as interest rate swaps to minimize its exposure to interest rate risk. Cash and cash equivalents earn interest based on market interest rates. As at December 31, 2008, the Company is not exposed to significant interest rate risk.

#### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations. The Company is not exposed to significant credit risk because it does not extend credit to buyers at its auctions, and it has a large diversified customer base. In addition, assets purchased at the Company's auctions are not normally released to the buyers until they are paid in full. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its receivables, less receivables relating to assets that have not been released to the buyers.

The Company's credit risk exposure on liquid financial assets is limited since it maintains its cash and cash equivalents in a broad range of large financial institutions around the world.

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## 12. Financial Instruments (continued):

(b) Financial risk management (continued):

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by maintaining adequate cash and cash equivalent balances, generally by releasing payments to consignors only after receivables from buyers have been collected. The Company also utilizes its established committed lines of credit (note 5) for short-term borrowings on an as-needed basis. The Company continuously monitors and reviews both actual and forecast cash flows to ensure there is sufficient working capital to satisfy its operating requirements.

## 13. 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.

The amounts in the consolidated statements of operations and comprehensive income that differ from those reported under Canadian GAAP are as follows:

	2008	2007	2006
Net earnings under Canadian GAAP	\$101,400	\$75,983	\$57,218
Cumulative translation adjustment on settlement of intercompany loans (a)	(14,884)	-	-
Net earnings under US GAAP	\$86,516	\$75,983	\$57,218
Other comprehensive income (loss) under Canadian GAAP	(41,780)	15,457	5,589
Cumulative translation adjustment (a)	14,884	-	-
Other comprehensive income (loss) under US GAAP	(\$26,896)	\$15,457	\$5,589
Comprehensive income under US GAAP	\$59,620	\$91,440	\$62,807
Net earnings per share in accordance with US GAAP:			
Basic	\$0.83	\$0.73	\$0.55
Diluted	\$0.82	\$0.72	\$0.55

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## 13. United States generally accepted accounting principles (continued):

The amounts in the consolidated balance sheets that differ from those reported under Canadian GAAP are as follows:

	2008		2007	
	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
Capital assets (b)	\$ 453,642	\$ 474,720	\$ 390,044	\$ 390,044
Accounts payable and accrued liabilities (b)	84,114	105,192	98,039	98,039
Retained earnings (a)	\$ 357,845	\$ 342,961	\$ 292,046	\$ 292,046
Accumulated other comprehensive income (loss) (a)	(1,404)	13,480	40,376	40,376

- (a) The Company had a number of outstanding intercompany loan balances where settlement was not planned or anticipated in the foreseeable future, which were considered part of net investments in foreign operations. As such, foreign exchange gains or losses arising from these intercompany loans were reported in the cumulative translation adjustment account. In 2008, a number of the intercompany loans were settled or planned to be settled, which resulted in the reclassification to net earnings of foreign currency translation gains of \$14,884,000, net of tax of \$139,000. Under US GAAP, the reclassification of the pro rata portion of foreign exchange gains or losses in accumulated other comprehensive income to net earnings only occurs when the reduction in the net investment is the result of a complete sale, or complete or substantially complete liquidation, which has not occurred in this case.
- (b) The Company sold its new headquarters building under construction and will lease the property from the purchaser upon construction completion. Under US GAAP, the Company is required to record an asset under construction as prescribed by the Emerging Issue Task Force ("EITF") 97-10, The Effect of Lessee Involvement in Asset Construction, as the Company is deemed the owner of the construction project during the construction period. Reimbursements from the lessor to the Company during the construction period are recorded as accounts payable and accrued liabilities, as construction is expected to be completed within one year. Upon the completion of construction, a sale-leaseback transaction will occur and the Company will lease the headquarters facility from the lessor. Amounts recorded under asset under construction and accounts payable and accrued liabilities will be derecognized upon completion of construction.