

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, 1998 compared to the twelve months ended December 31, 1997. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included herein. The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in Canada which, except as set out in note 9 to the consolidated financial statements, results 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.

Effective December 31, 1997, the Company changed its fiscal year end from April 30 to December 31. The financial results for the year ended December 31, 1998 represent the first full fiscal year on the basis of the Company's new reporting year. The financial results for the transition period from May 1, 1997 to December 31, 1997 are also reported in the consolidated financial statements. Results for the transition period are not necessarily indicative of operations for a full year.

For comparative information purposes, unaudited consolidated statements of income and cash flows prepared by management are presented for the twelve-month period ended December 31, 1997. Such information reflects all adjustments that are, in the opinion of management, necessary to reflect a fair presentation of the results of operations for such period. The discussion that follows compares the audited results for the year ended December 31, 1998 to the unaudited results for the twelve months ended December 31, 1997. The Company believes that this approach provides readers with the most meaningful information.

Ritchie Bros. is the world's leading auctioneer of industrial equipment, operating through over 50 locations, including 13 permanent auction sites and 8 regional auction units, in 14 countries in North America, Europe, Asia, Australia and the Middle East. The Company sells, through unreserved public auctions, a broad range of used equipment, including equipment utilized in the construction, transportation, mining, forestry, petroleum and agricultural industries.

Gross auction sales represent the aggregate selling prices of all items sold at Ritchie Bros. auctions during the periods indicated. Gross auction sales are key to understanding the financial results of the Company, since the amount of auction revenues and to a lesser extent, certain expenses, are dependent on it. Auction revenues include commissions earned as agent for consignors through both straight commission and gross guarantee contracts, plus the net profit on the sale of equipment purchased and sold by the Company as principal. Under a gross guarantee contract, the consignor is guaranteed a minimum amount of proceeds on the sale of its equipment. When the Company guarantees gross proceeds, it earns a commission on the guaranteed amount and typically participates in a negotiated percentage of proceeds, if any, in excess of the guaranteed amount. 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. Auction revenues are reduced by the amount of any losses on gross guarantee consignments and sales by the Company as principal. Auction revenues also include interest income earned that is incidental to the auction business.

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 the Company generally conducts more auctions 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.

The Company is aware of potential restrictions that may affect the ability of equipment owners to transport certain equipment between some jurisdictions. Management believes that these potential restrictions have not had a significant impact on the Company's business, financial condition or results of operations to date. However, the extent of any future impact on the Company's business, financial condition or results of operations from these potential restrictions cannot be predicted at this time.

Income taxes reported in periods prior to the completion of a corporate reorganization in December 1997 are not indicative of taxes that would normally be incurred on reported income. Prior to the reorganization, the majority of Ritchie Bros.' business operations was carried on by predecessor entities to the Company that were partnerships. Consequently, most of the income of the predecessor partnerships was included for income tax purposes in the income of the partner entities, many of which were not predecessor entities to the Company. As a result of the reorganization, the Company is subject to income taxation in all relevant jurisdictions.

Prior to the reorganization the Company's general and administrative expense fluctuated significantly from period to period, primarily as a result of the amount and timing of profit distributions paid as bonuses to certain of the beneficial owners of the Company's predecessor entities. During this period, certain other beneficial owners were remunerated through profit distributions that did not result in charges against the Company's income. The differences in timing, magnitude and characterization of remuneration affects the comparability of general and administrative expense between 1997 and 1998.

On February 19, 1999, Ritchie Bros. entered into an agreement to acquire the auction business of Forke Auctioneers, Inc. ("Forke"), a major auctioneer of industrial equipment headquartered in Lincoln, Nebraska. Whereas Ritchie Bros. operates through over 50 locations in 14 countries in North America, Europe, Asia, Australia and the Middle East, Forke operates primarily in the United States. Forke has been conducting industrial auctions since 1921 and pioneered the industrial auction business in the United States. The transaction is expected to close in March or April 1999, subject to customary conditions. The Company is not acquiring Forke's equipment finance business. The parties have agreed not to disclose the terms of the agreement until the transaction has closed. The Company intends to finance the acquisition substantially with a bank term loan.

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

Results of Operations

Auction Revenues

Auction revenues of \$94.9 million for the year ended December 31, 1998 increased by \$9.9 million, or 11.6%, from the twelve months ended December 31, 1997 due to increased gross auction sales, partially offset by a marginally lower average percentage of auction revenues earned by the Company on gross auction sales. Gross auction sales of \$1.088 billion for the year ended December 31, 1998 increased by \$141.3 million, or 14.9%, from the prior period, primarily as a result of increased gross auction sales in the United States and Europe. Results for 1998 included significant gross auction sales for certain auctions held by the Company in Rotterdam, the Netherlands, Fort Worth, Texas, and Dubai, the United Arab Emirates. Auction revenues as a percentage of gross auction sales have averaged 8.80% on a long-term basis. In 1998, the auction revenue rate of 8.72% was fractionally lower than the long-term average and lower than the 8.98% rate experienced in 1997. The Company's expectations with respect to the long-term average auction revenue rate remain unchanged.

Direct Expenses

Direct expenses are expenses that are 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, lease expenses for temporary auction sites, travel costs for full time employees to attend and work at the auction site, security hired to safeguard equipment while at the auction site, and advertising costs specifically related to the auction. Direct expenses decreased by \$1.3 million to \$16.0 million for the year ended December 31, 1998 compared to the prior period. As a percentage of gross auction sales, direct expenses were 1.47% for the year ending December 31, 1998, lower than the 1.83% experienced during 1997. This decrease was primarily a result of fewer but larger auctions being held in 1998 as compared to 1997 and the related expense efficiencies arising from conducting large auctions. As a percentage of gross auction sales, direct expenses incurred in both periods were lower than the Company's long-term average of 1.90%. This difference is a result of relatively more large auctions being held by the Company during both 1998 and 1997 than in other prior periods. The Company anticipates that it will continue to hold these large auctions and that direct expenses as a percentage of gross auction sales will, in future periods, be lower than the average that the Company has experienced over the last several years.

Depreciation Expense

Depreciation is calculated on capital assets employed in the Company's business, including building and site improvements, automobiles, yard equipment, and computers. In the year ending December 31, 1998, depreciation increased marginally from 1997, due to an increase in depreciable fixed assets. Management anticipates that depreciation expense will increase as existing auction sites are improved and additional permanent auction sites are acquired and developed.

General and Administrative Expense

General and administrative expense ("G&A") includes employee expenses, such as salaries, wages, performance bonuses and benefits, non-auction related travel, institutional advertising, insurance, general office, and computer expenses. For the year ended December 31, 1998, the Company incurred G&A of \$39.3 million. Management does not consider G&A of \$37.7 million in 1997 to be meaningful as a comparable number since the expenses incurred in 1997 reflect results prior to the reorganization and, as a result, certain components are not comparable on a period to period basis with the expenses incurred in 1998. See "- Overview". Management anticipates that G&A will increase in the future due to an increased level of administrative infrastructure to support expansion of the Company's operations.

Employee Equity Participation Expense

Employee equity participation expense of \$10.3 million incurred in the twelve months ended December 31, 1997 related to the issuance of shares and options to employees of the Company on a discounted basis pursuant to the Employee Equity Participation Program described in note 5 to the consolidated financial statements included herein. In 1998, no such discounted shares or options were issued and management does not anticipate further issuances of shares or grants of options under the Employee Equity Participation Program.

Income from Operations

Income from operations was \$36.8 million in the year ended December 31, 1998. Management does not consider the 1997 results to be meaningful as a comparable number because certain components of G&A are not comparable on a period to period basis, and because of the effect of the employee equity participation expense in 1997.

Interest Expense

Interest expense includes interest and bank charges paid on term bank debt. Interest expense for the year ended December 31, 1998 decreased \$0.4 million to \$1.6 million, compared to \$2.0 million incurred in the twelve months ended December 31, 1997. Management plans to partially finance the acquisition of additional permanent auction sites and the Forke assets by incurring debt, which should result in an increase in interest expense in the future.

Other Income

Other income arises from equipment appraisals performed by the Company, and other miscellaneous sources. Other income for the year ended December 31, 1998 of \$3.3 million increased by \$2.5 million from 1997 due primarily to \$1.8 million of non-recurring income (\$1.2 million after giving effect to income tax) during 1998. This non-recurring income was generated primarily as a result of a gain on the disposal of a permanent auction site that has been replaced with a new facility. The balance of the increase resulted primarily from increased appraisal revenues and the recovery of miscellaneous prior period charges.

Income Taxes

Income taxes of \$13.7 million for the year ended December 31, 1998 have been computed based on rates of tax that apply in each of the tax jurisdictions in which the Company operates. The effective rate of tax on net income for 1998 of 35.5% is marginally lower than the rate the Company would normally expect for subsequent years because, during 1998, the Company earned a slightly higher than usual percentage of its income in lower tax rate jurisdictions. Income taxes for the twelve months ended December 31, 1997 are not meaningful as a comparable number because of the non-comparability of net income before tax and, since prior to the reorganization, many of the predecessor entities to the Company were partnerships not subject to corporate income taxation. See "- Overview."

Liquidity and Capital Resources

The Company's cash can fluctuate significantly from period to period, largely due to differences in timing of receipt of gross 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. Accordingly, management believes a more meaningful measure of the Company's liquidity is working capital, including cash.

At December 31, 1998 and December 31, 1997, working capital was \$49.1 million and \$3.3 million respectively. The increase in working capital of \$45.8 million resulted primarily from the receipt of proceeds from the Company's initial public offering in March 1998 of approximately \$51.6 million, and from net income earned during the year ended December 31, 1998. This increase was partially offset by capital expenditures incurred by the Company during the period.

Net capital expenditures by the Company during the year ended December 31, 1998 were \$37.1 million as compared to \$5.1 million for the twelve months ended December 31, 1997. In 1998, the Company acquired land for use as permanent auction sites and incurred site development costs in the United States, Canada, Australia and Europe.

The Company is continuing with its plan to add additional permanent auction sites around the world and is presently in various stages of commitments to acquire land for development in the United States and Canada.

The Company has completed negotiations of credit facilities with financial institutions in the United States, Canada, Europe, and Australia. The Company presently has access to credit lines for operations exceeding \$95.0 million and to credit lines for funding property acquisitions exceeding \$40.0 million. Of these credit lines, at December 31, 1998, the Company had no bank debt relating to operations, and bank debt related to property acquisitions totaled \$9.6 million.

Year 2000 Compliance

The Company relies on computer systems and software to operate its business, including applications used to control information about bidders and consignors and to operate certain of its marketing, finance and administrative functions. The Company initiated its "Year 2000" compliance efforts in 1997. Management believes that only minor modifications remain to be completed to make its systems Year 2000 compliant and that related costs incurred to date have not, and estimated future costs will not, have a material impact on the Company's business, financial condition, or results of operations.

The most reasonable likely worst case Year 2000 scenario would involve the failure of one or more of the Company's key suppliers to become Year 2000 compliant. In such a scenario, the Company's ability to adequately advertise its auctions and account for receipts and payments as efficiently as it does at present could be negatively affected.

The Company is presently developing contingency plans in the event of the Company's or its key suppliers' failure to achieve full Year 2000 compliance and management anticipates these will be completed prior to June 1999. The plan includes identifying alternate organizations that may act as replacements for those with which the Company presently conducts business and which may not achieve full Year 2000 compliance, including one or more of its lenders, marketing service suppliers, or external software providers. The plan also includes development of internal back-up systems and identification of available replacement resources to restore operations to present levels in the event of Year 2000 non-compliance. Failure by the Company or any of its key suppliers to achieve full Year 2000 compliance in a timely manner or consistent with its current cost estimates, or to rectify deficiencies through any contingency plans, could have a material adverse effect on the Company's business, financial condition and results of operations.

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain 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, G&A increases, income tax rates, the anticipated improvement, acquisition and development of permanent auction sites, the anticipated acquisition of Forke assets, financing available to the Company, and the future-oriented comments contained throughout this Annual Report. Words such as "expects", "intends", "plans", "believes", "estimates" 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 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 many factors that impact on the supply of and demand for used equipment; fluctuations in the market values of used equipment; periodic and seasonal variations in operating results or financial conditions; potential delays in construction or development of auction sites; actions of competitors; the possibility that the Forke acquisition will not be completed; adverse changes in economic conditions; restrictions affecting the ability of equipment owners to transport equipment between jurisdictions; and other risks and uncertainties as detailed in the Company's Rule 424(b) Prospectus dated March 9, 1998. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements should be considered in light of these factors.

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, 1998 and 1997 and the consolidated statements of income, shareholders' equity and cash flows for the years ended December 31, 1998 and 1997 (Unaudited), for the eight months ended December 31, 1997 and the year ended April 30, 1997. 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, 1998 and 1997 and the results of its operations and the changes in its cash flows for the years ended December 31, 1998 and 1997 (Unaudited), for the eight months ended December 31, 1997 and the year ended April 30, 1997 in accordance with generally accepted accounting principles in Canada.

Significant measurement differences between Canadian and United States accounting principles are explained and quantified in note 9.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 26, 1999

CONSOLIDATED STATEMENTS OF INCOME

(Expressed in thousands of United States Dollars)

	Year ended December 31, 1998	Year ended December 31, 1997 <small>(Unaudited)</small>	Eight months ended December 31, 1997	Year ended April 30, 1997
Auction revenues	\$ 94,899	\$ 85,009	\$ 60,034	\$ 72,186
Direct expenses	(16,010)	(17,351)	(13,041)	(13,908)
Expenses	78,889	67,658	46,993	58,278
Depreciation	2,752	2,548	1,540	2,014
General and administrative	39,315	37,724	27,414	31,099
Employee equity participation (note 5(d))	-	10,346	10,346	-
	42,067	50,618	39,300	33,113
Income from operations	36,822	17,040	7,693	25,165
Other income (expenses)				
Interest expense	(1,569)	(2,034)	(1,380)	(1,081)
Other	3,251	754	576	917
	1,682	(1,280)	(804)	(164)
Income before income taxes	38,504	15,760	6,889	25,001
Income taxes (note 7)				
Current	13,962	7,438	4,491	5,992
Future	(292)	-	-	-
	13,670	7,438	4,491	5,992
Net income	\$ 24,834	\$ 8,322	\$ 2,398	\$ 19,009
Net income per share (note 1(l))				
Basic	\$ 1.56	\$ 0.65	\$ 0.19	\$ 1.49
Diluted	1.54	0.64	0.18	1.49
Weighted average number of shares outstanding	15,918,214	12,877,777	12,958,753	12,715,667

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors



C. Russell Cmolik
Director



Peter J. Blake
Director

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of United States Dollars)

	December 31,		December 31,	
	1998	1997	1998	1997
Assets				
Current assets				
Cash and cash equivalents	\$ 73,620	\$ 27,149		
Accounts receivable	6,771	6,744		
Inventory	2,355	7,081		
Advances against auction contracts	5,345	1,261		
Prepaid expenses and deposits	711	1,218		
	88,802	43,453		
Capital assets (note 3)	61,324	27,007		
Future income taxes (note 7)	2,467	-		
	\$ 152,593	\$ 70,460		
Liabilities and Shareholders' Equity				
Current liabilities				
Auction proceeds payable	\$ 14,030	\$ 17,728		
Accounts payable and accrued liabilities	21,751	17,131		
Current bank loans (note 4)	793	730		
Income taxes payable	3,079	4,542		
	39,653	40,131		
Bank term loans (note 4)	8,768	4,623		
	48,421	44,754		
Shareholders' equity				
Share capital (note 5)	64,728	10,866		
Retained earnings	41,772	16,958		
Foreign currency translation adjustment	(2,328)	(2,118)		
	104,172	25,706		
Subsequent event (note 10)				
	\$ 152,593	\$ 70,460		

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Expressed in thousands of United States Dollars)

	Share Capital	Retained Earnings	Foreign Currency Translation Adjustment	Total Shareholders' Equity
Balance, April 30, 1996	\$ 3,337	\$ 47,015	\$ (1,551)	\$ 48,801
Net proceeds on common shares issued	28	-	-	28
Capital contributions to partnerships	-	166	-	166
Net income	-	19,009	-	19,009
Drawings and dividends	-	(8,073)	-	(8,073)
Refundable taxes on investment income	-	(29)	-	(29)
Foreign currency translation adjustment	-	-	(577)	(577)
Balance, April 30, 1997	3,365	58,088	(2,128)	59,325
Common shares redeemed	(2,845)	-	-	(2,845)
Employee equity participation (note 5(d))	10,346	-	-	10,346
Net income	-	2,398	-	2,398
Drawings and dividends	-	(42,175)	-	(42,175)
Reorganization costs	-	(1,353)	-	(1,353)
Foreign currency translation adjustment	-	-	10	10
Balance, December 31, 1997	10,866	16,958	(2,118)	25,706
Net proceeds on common shares issued	53,862	-	-	53,862
Net income	-	24,834	-	24,834
Reorganization costs	-	(20)	-	(20)
Foreign currency translation adjustment	-	-	(210)	(210)
Balance, December 31, 1998	\$ 64,728	\$ 41,772	\$ (2,328)	\$ 104,172

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States Dollars)

	Year ended December 31, 1998	Year ended December 31, 1997 (Unaudited)	Eight months ended December 31, 1997	Year ended April 30, 1997
Cash provided by (used in)				
Operations				
Net income	\$ 24,834	\$ 8,322	\$ 2,398	\$ 19,009
Items not involving the use of cash				
Depreciation	2,752	2,548	1,540	2,014
Employee equity participation	-	10,346	10,346	-
Future income taxes	(2,467)	-	-	-
Changes in non-cash working capital				
Accounts receivable	(27)	(2,389)	7,363	20,788
Inventory	4,726	455	11,073	(8,148)
Advances against auction contracts	(4,084)	1,395	5,211	(351)
Prepaid expenses and deposits	507	(711)	(446)	(202)
Auctions proceeds payable	(3,698)	10,434	(35,749)	(22,526)
Accounts payable and accrued liabilities	4,620	9,329	8,203	(1,272)
Payables to affiliated entities	-	(3,078)	(3,818)	459
Income taxes payable	(1,463)	2,077	(540)	1,845
Foreign currency translation adjustment	(210)	(417)	10	(577)
	25,490	38,311	5,591	11,039
Financing				
Issuance (redemption) of share capital	53,862	(2,833)	(2,845)	28
Payables to employees and others	-	(1,317)	(1,279)	57
Bank loans	4,208	(1,326)	(5,596)	2,802
Drawings and dividends paid	-	(42,756)	(42,175)	(8,073)
Capital contributions	-	-	-	166
Refundable taxes on investment income	-	(29)	-	(29)
Reorganization costs	(20)	(1,353)	(1,353)	-
	58,050	(49,614)	(53,248)	(5,049)
Investments				
Capital asset additions, net	(37,069)	(5,120)	(3,174)	(5,171)
Increase (decrease) in cash and cash equivalents	46,471	(16,423)	(50,831)	819
Cash and cash equivalents, beginning of period	27,149	43,572	77,980	77,161
Cash and cash equivalents, end of period	\$ 73,620	\$ 27,149	\$ 27,149	\$ 77,980
Supplemental disclosure of cash flow information				
Interest paid	\$ 1,570	\$ 1,853	\$ 1,242	\$ 1,068
Income taxes paid	\$ 16,735	\$ 5,098	\$ 5,332	\$ 4,147

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997 (Unaudited), eight months ended December 31, 1997 and year ended April 30, 1997 (Tabular dollar amounts expressed in thousands of United States Dollars)

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 subsidiary predecessor businesses. These predecessor businesses comprised the Ritchie Bros. Auctioneers group of companies and partnerships (the "Group"). In the eight-month period ended December 31, 1997, the businesses of the partnerships within the Group were transferred into corporations, the shares of which, together with the shares of the corporations within the Group, were exchanged by their owners for shares of the Company (the "Reorganization"). All inter-entity accounts and transactions have been eliminated on consolidation.

On November 1, 1997, prior to completion of the Reorganization, the owners of the Group entered into the Equity Interest and Income Sharing Agreement (the "Agreement") which confirmed the existing voting, earnings allocation and liquidation rights of each owner. These rights were based upon the owners' interests in the Group, taken as a whole, which was treated as a single global enterprise since prior to May 1, 1992. The rights and obligations specified in the Agreement were those of an agreement which has been in effect at all times since May 1, 1992 and which modified the terms of any written agreements containing provisions that may have been inconsistent with the Agreement. Each owner's rights under the Agreement were determined in accordance with such owner's ownership percentage of the Group ("Global Ownership Percentage"), which was equal to the number of units of ownership of the Group allocated to the owner divided by the total number of units outstanding. The owners' respective Global Ownership Percentages were determined on the basis of the Group taken as a whole, and not on the basis of the documentation governing the owners' equity interests in the predecessor entities within the Group. The Group has been legally obligated to make and has made earnings allocations in accordance with the terms of the Agreement since prior to May 1, 1992. As a result of these agreements and practices, each owner's ownership interest in the Company upon completion of the Reorganization represents a substantially identical interest to such owner's ownership interest in the Group prior to the Reorganization.

Because the Reorganization was a non-substantive exchange, the Group's assets, liabilities, revenues and expenses have been consolidated at the historical cost amounts recorded in the individual entity accounts, and carried forward into the consolidated accounts of the Company together with costs of the Reorganization.

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 9, also comply, in all material respects, with generally accepted accounting principles in the United States.

The Group included three partnerships, one situated in Canada and two situated in the United States, all of which were non-taxable entities. The Group also included the companies that were partners of the United States partnerships and certain, but not all, of the companies that were partners of the Canadian partnership. To the extent that the Group included these partner entities, these consolidated financial statements include provisions for taxes chargeable against partnership income. To the extent that the partner entities did not form part of the Group, no taxes have been provided on the net income allocated to those companies. Note 9 sets out the pro forma impact as if all income were taxed within the Group. These consolidated financial statements also do not include any of the other assets, liabilities, revenues or expenses of the partner entities not included in the Group.

Notes to Consolidated Financial Statements, continued

Years ended December 31, 1998 and 1997 (Unaudited), eight months ended December 31, 1997 and year ended April 30, 1997 (Tabular dollar amounts expressed in thousands of United States Dollars)

1. Significant accounting policies, continued

In calendar 1997, the Company changed its fiscal year-end from April 30 to December 31. As a result, the transition period from May 1, 1997 to December 31, 1997 is separately reported herein. In addition, for information purposes only, the consolidated statements of income and cash flows for the 12 months ended December 31, 1997 have been presented.

The financial information for the year ended December 31, 1997 is unaudited; however, in the opinion of management, such information includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of such financial information.

(b) 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) Advances against auction contracts

Advances against auction contracts represent funds advanced to consignors against proceeds from future auctions.

(e) Capital assets

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

Improvements	30 years straight-line
Buildings	30 years straight-line
Automotive equipment	30% declining balance
Computer equipment	30% declining balance
Yard equipment	20-30% declining balance
Office equipment	20% declining balance
Leasehold improvements	Term of leases

(f) Revenue recognition

Auction revenues are recognized when the specific items are sold and title passes to the purchaser and are represented by the commissions received from the consignor and the net proceeds received from the sale of self-owned equipment.

(g) Income taxes

Income taxes are accounted for using the asset and liability method pursuant to Section 3465, Income Taxes, of The Handbook of the Canadian Institute of Chartered Accountants. Future taxes are recognized for the tax consequences of "temporary differences" by applying 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 deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. In addition, Section 3465 requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

Notes to Consolidated Financial Statements, continued

Years ended December 31, 1998 and 1997 (Unaudited), eight months ended December 31, 1997 and year ended April 30, 1997 (Tabular dollar amounts expressed in thousands of United States Dollars)

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 the country of residency. 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 income. Any gains or losses from this translation have been included in the foreign currency translation adjustment account which is included in 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 are included in the determination of income.

(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. 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, auction proceeds payable and accounts payable and accrued liabilities, approximate 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 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 income per share

Net income per share has been calculated based on the weighted average number of common shares outstanding after giving retroactive effect to the 12,715,667 common shares issued on the reorganization. Diluted net income per share has been calculated after giving effect to the outstanding options.

2. Change in accounting policy

In the fourth quarter of 1998, the Company changed its policy for accounting for income taxes by adopting the provisions of Section 3465, Income Taxes, of The Handbook of the Canadian Institute of Chartered Accountants. Under this standard, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

The adoption of Section 3465 did not impact amounts reported in the prior period.

Notes to Consolidated Financial Statements, continued

Years ended December 31, 1998 and 1997 (Unaudited), eight months ended December 31, 1997 and year ended April 30, 1997 (Tabular dollar amounts expressed in thousands of United States Dollars)

3. Capital assets

Capital assets at December 31, 1998 are as follows:

	Cost	Accumulated depreciation	Net book value
Land and improvements	\$ 36,631	\$ 900	\$ 35,731
Buildings	21,056	2,825	18,231
Automotive equipment	5,164	1,606	3,558
Computer equipment	1,920	739	1,181
Yard equipment	2,619	1,124	1,495
Office equipment	1,996	1,018	978
Leasehold improvements	200	50	150
	\$ 69,586	\$ 8,262	\$ 61,324

Capital assets at December 31, 1997 are as follows:

	Cost	Accumulated depreciation	Net book value
Land and improvements	\$ 12,830	\$ 535	\$ 12,295
Buildings	11,490	2,726	8,764
Automotive equipment	3,974	1,002	2,972
Computer equipment	1,384	433	951
Yard equipment	2,320	1,082	1,238
Office equipment	1,454	874	580
Leasehold improvements	225	18	207
	\$ 33,677	\$ 6,670	\$ 27,007

4. Bank term loans

	December 31, 1998	December 31, 1997
7.88% term loan, due in monthly instalments of \$31,162 including interest, settled September 8, 1998	\$ -	\$ 1,720
8.75% term loan, due in monthly instalments of \$60,967 including interest, settled September 8, 1998	-	3,633
6.90% term loan, due in monthly instalments of \$81,200 including interest, with the final payment occurring on July 1, 2004	4,499	-
Term loan, bearing interest at the Amsterdam Interbank Offered Rate plus 7/8%, due in quarterly instalments of \$66,600 including interest, with the final payment occurring on June 30, 2013	5,062	-
	9,561	5,353
Less current portion	(793)	(730)
	\$ 8,768	\$ 4,623

At December 31, 1998, the Company had undrawn operating credit lines available of in excess of \$95,000,000. In addition, the Company had undrawn credit lines of approximately \$31,000,000 available to fund property acquisitions.

The bank term loans are secured by deeds of trust on specific property.

As at December 31, 1998, principal repayments are required as follows in the next five years:

1999	\$ 793
2000	1,001
2001	1,053
2002	1,109
2003	1,169
Thereafter	4,436
	\$ 9,561

Notes to Consolidated Financial Statements, continued

Years ended December 31, 1998 and 1997 (Unaudited), eight months ended December 31, 1997 and year ended April 30, 1997 (Tabular dollar amounts expressed in thousands of United States Dollars)

5. 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

Number of common shares issued during the period ended December 31, 1997:	
For cash, pursuant to the Employee Equity Participation Program	497,999
On reorganization	12,715,667
Balance December 31, 1997	13,213,666
Number of common shares issued during the year ended December 31, 1998, pursuant to an equity offering	
	3,335,000
Issued and outstanding, December 31, 1998	16,548,666

(c) Options

The Company has adopted a stock option plan which 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 option activity for 1997 and 1998 is presented below:

	Number of Shares	Exercise Price per Share
Outstanding, April 30, 1997	-	\$ -
Granted (note 5(d))	196,333	0.10
Outstanding, December 31, 1997	196,333	0.10
Granted	36,000	26.12
Cancelled	(25,333)	0.10
Outstanding, December 31, 1998	207,000	\$ 0.10 - 26.12

The options outstanding at December 31, 1998 expire from dates ranging to July 31, 2004.

(d) Employee equity participation

Substantially all the full-time employees who were not beneficial owners of the predecessor entities to the Company have been granted an equity interest in the Company pursuant to the Employee Equity Participation Program by means of issuances of common shares at a cash price of \$0.10 per share or grants of stock options having an exercise price of \$0.10 per share. During the year ended December 31, 1997, the Company issued 497,999 common shares and granted stock options to purchase 196,333 common shares under the Program. The shares issued and options granted have fully vested with the holders. The excess of the estimated mid-point of the offering price range of the shares estimated at the time to be issued to the public of \$15.00 over the issuance price of the shares or the exercise price of the options granted, as applicable in the circumstances, pursuant to the Program is considered to be compensatory for accounting purposes and has been recorded as employee equity participation expense in the accompanying consolidated financial statements.

(e) Offering

The Company filed a registration statement with the Securities and Exchange Commission in the United States pursuant to which the Company issued and sold 3,335,000 common shares (the "Offering"). For services provided in connection with the Offering, the Company paid the underwriters a per share commission.

Notes to Consolidated Financial Statements, continued

Years ended December 31, 1998 and 1997 (Unaudited), eight months ended December 31, 1997 and year ended April 30, 1997 (Tabular dollar amounts expressed in thousands of United States Dollars)

6. Segmented information

The Company's principal business activities include the sale of consignment and self-owned equipment at auctions. This business represents a single operating segment.

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

	United States	Canada	Other	Combined
Year ended December 31, 1998				
Auction revenues	\$ 49,747	\$ 16,105	\$ 29,047	\$ 94,899
Identifiable assets	73,045	21,850	57,698	152,593
Year ended December 31, 1997 (Unaudited)				
Auction revenues	44,615	16,095	24,299	85,009
Identifiable assets	53,441	2,357	14,662	70,460
Eight months ended December 31, 1997				
Auction revenues	32,254	13,664	14,116	60,034
Identifiable assets	53,441	2,357	14,662	70,460
Year ended April 30, 1997				
Auction revenues	36,845	16,910	18,431	72,186
Identifiable assets	82,045	27,650	33,163	142,858

7. Income taxes

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

	Year ended December 31, 1998	Year ended December 31, 1997 (Unaudited)	Eight months ended December 31, 1997	Year ended April 30, 1997
Statutory tax rate in the United States	39%	39%	39%	39%
Expected income tax expense	\$ 15,017	\$ 6,147	\$ 2,687	\$ 9,750
Differences				
Different tax rates in non-U.S. jurisdictions	(2,028)	(831)	(247)	(411)
Partnership income not taxed in Group	-	(1,566)	(806)	(3,899)
U.S. income taxed at lower graduated rates	-	(397)	(128)	(548)
Employee equity participation expense not tax deductible	-	2,894	2,894	-
Other	681	1,191	91	1,100
Actual income tax expense	\$ 13,670	\$ 7,438	\$ 4,491	\$ 5,992

If all partnership income had been taxed in the Group, income taxes would have been as follows:

	Year ended December 31, 1998	Year ended December 31, 1997 (Unaudited)	Eight months ended December 31, 1997	Year ended April 30, 1997
Income taxes	\$ 13,670	\$ 9,004	\$ 5,297	\$ 9,891

Notes to Consolidated Financial Statements, continued

Years ended December 31, 1998 and 1997 (Unaudited), eight months ended December 31, 1997 and year ended April 30, 1997 (Tabular dollar amounts expressed in thousands of United States Dollars)

7. Income taxes, continued

<i>Future income taxes</i>	December 31, 1998	December 31, 1997
Future income tax benefit of options granted	\$ 853	\$ -
Future income tax benefit resulting from tax deductible financing costs incurred in the course of the Company's initial public offering in March 1998	1,740	-
Future income tax recovery on unused tax losses, expiring on December 31, 2005	324	-
Future income tax liabilities arising from temporary differences between the tax basis of net assets and their carrying value		
Capital assets	(475)	-
Accounts payable	25	-
	<u>\$ 2,467</u>	<u>\$ -</u>

8. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

9. 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. Material measurement differences to these consolidated financial statements are as follows:

Consolidated statements of comprehensive net income and net income per share

	Year ended December 31, 1998	Year ended December 31, 1997 (Unaudited)	Eight months ended December 31, 1997	Year ended April 30, 1997
Net income in accordance with Canadian GAAP	\$ 24,834	\$ 8,322	\$ 2,398	\$ 19,009
Effect of differences in accounting for reorganization costs (note 9(i))	(20)	(434)	(434)	-
Income tax effect from the reorganization (note 9(i))	-	(919)	(919)	-
Net income in accordance with United States GAAP	24,814	6,969	1,045	19,009
Other comprehensive income (loss) adjustments (note 9(ii))				
Foreign currency translation	(210)	(417)	10	(577)
Comprehensive net income in accordance with United States GAAP	<u>\$ 24,604</u>	<u>\$ 6,552</u>	<u>\$ 1,055</u>	<u>\$ 18,432</u>
Net income per share in accordance with United States GAAP				
Basic	\$ 1.56	\$ 0.54	\$ 0.08	\$ 1.49
Diluted	1.54	0.54	0.08	1.49

Notes to Consolidated Financial Statements, continued

Years ended December 31, 1998 and 1997 (Unaudited), eight months ended December 31, 1997 and year ended April 30, 1997 (Tabular dollar amounts expressed in thousands of United States Dollars)

9. United States generally accepted accounting principles, continued

(i) Reorganization costs

In accordance with generally accepted accounting principles in Canada, costs incurred with respect to the Reorganization have been charged, net of tax, against equity. Under generally accepted accounting principles in the United States, such amounts are required to be charged against income. Such costs have only been incurred in the eight months ended December 31, 1997 and the years ended December 31, 1998 and 1997 (Unaudited).

(ii) Other comprehensive income (loss)

Beginning in fiscal year 1998, the Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130") "Reporting Comprehensive Income". This statement established standards for reporting and display of comprehensive income and its components. Comprehensive income includes the change in equity or net assets of the Company during the period from non-owner sources, including foreign exchange adjustments, included as separate components of shareholders' equity.

10. Subsequent event

On February 19, 1999, the Company entered into an agreement to acquire the auction business and certain assets of Forke Auctioneers, Inc., a major auctioneer of industrial equipment headquartered in Lincoln, Nebraska. The transaction is expected to close in March or April of 1999, subject to regulatory clearance and other customary conditions. Terms and conditions of this acquisition, by agreement, cannot be disclosed until closing. The Company intends to finance this acquisition substantially with a bank term loan.

SELECTED FINANCIAL AND OPERATING DATA

(Tabular dollar amounts expressed in thousands of United States Dollars, except per share data)

	Year Ended December 31, 1998	Year Ended December 31, 1997 (Unaudited)	Year Ended April 30, 1997	Year Ended April 30, 1996	Year Ended April 30, 1995	Year Ended April 30, 1994	Year Ended April 30, 1993
Gross auction sales	\$ 1,087,800	\$ 946,415	\$ 792,865	\$ 752,735	\$ 634,058	\$ 567,506	\$ 477,056
Income Statement Data							
Auction revenues	\$ 94,899	\$ 85,009	\$ 72,186	\$ 65,306	\$ 51,326	\$ 50,066	\$ 45,003
Direct expenses	(16,010)	(17,351)	(13,908)	(13,138)	(12,979)	(11,925)	(10,507)
	78,889	67,658	58,278	52,168	38,347	38,141	34,496
Depreciation	(2,752)	(2,548)	(2,014)	(1,820)	(1,708)	(1,327)	(1,198)
General and administrative expense	(39,315)						
Income from operations	36,822						
Interest expense	(1,569)	(2,034)	(1,081)	(1,104)	(1,274)	(611)	(411)
Other income	3,251	754	917	1,179	677	1,336	413
Income before income taxes	38,504						
Income taxes	(13,670)						
Net income	\$ 24,834						
Net income per share-basic	\$ 1.56						
Balance Sheet Data (end of period)							
Working capital (including cash)	\$ 49,149	\$ 3,322	\$ 39,707	\$ 33,132	\$ 21,822	\$ 23,900	\$ 19,461
Total assets	152,593	70,460	142,858	150,969	98,621	87,802	78,685
Long term debt	8,768	4,623	5,755	6,547	6,985	7,282	1,134
Total shareholders' equity	104,172	25,706	59,325	48,801	37,718	35,449	29,877
Selected Operating Data							
Auction revenues as percentage of gross auction sales	8.72%	8.98%	9.10%	8.68%	8.09%	8.82%	9.43%
Number of consignors	14,432	13,636	12,088	10,744	10,460	8,650	8,878
Number of buyers	34,613	33,340	30,630	27,837	27,401	25,812	24,593
Number of permanent auction sites (end of period)	13	13	13	12	11	10	8

Note: Information for periods prior to 1998 has been omitted if it is not meaningful for comparative purposes. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

SUPPLEMENTAL QUARTERLY DATA

(Unaudited; tabular dollar amounts expressed in thousands of United States Dollars, except per share data)

Period	Gross Auction Sales	Auction Revenue	Net Income	Net Income Per Share		Closing Stock Price
				Basic	Diluted	
1998						
1st quarter	\$ 227,637	\$ 21,229	\$ 3,377	\$ 0.24	\$ 0.24	\$ 24.06
2nd quarter	339,219	29,188	8,492	0.51	0.51	26.56
3rd quarter (1)	183,633	13,869	2,004	0.12	0.12	22.13
4th quarter	337,311	30,613	10,961	0.66	0.65	26.94
	<u>\$ 1,087,800</u>	<u>\$ 94,899</u>	<u>\$ 24,834</u>	<u>\$ 1.56 (2)</u>	<u>\$ 1.54 (2)</u>	
1997 (3)						
1st quarter	\$ 146,915	\$ 13,710				
2nd quarter	329,700	30,525				
3rd quarter	163,455	15,629				
4th quarter	306,345	25,145				
	<u>\$ 946,415</u>	<u>\$ 85,009</u>				

(1) Net Income for the third quarter of 1998 includes non-recurring income of \$1.2 million or \$0.07 per share

(2) Net Income per share on a full year basis does not equal the sum of the quarterly amounts because the number of shares outstanding changed significantly in March 1998 when the company completed its initial public offering.

(3) 1997 Net Income figures are not meaningful for comparative purposes. See Management's Discussion and Analysis of Financial Condition and Results of Operations.



Shareholder Information

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Directors and Executive Officers

David E. Ritchie

Chairman and Chief Executive Officer

C. Russell Cmolik

Director, President and Chief Operating Officer

Peter J. Blake

Director, Vice President Finance
and Chief Financial Officer

Charles E. Croft

Director

G. Edward Moul

Director

Robert S. Armstrong

Corporate Secretary

Investor Relations

Securities analysts, portfolio managers, investors and representatives of financial institutions seeking financial and operating information may contact:

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Copies of the Company's filings with the US Securities & Exchange Commission and with the Canadian securities commissions are available to shareholders and other interested parties on request or can be accessed directly on the internet at www.rbauction.com.

Annual General Meeting

The Annual General Meeting of the Company's shareholders will be held at 4:00pm on Friday May 14, 1999 at the Abercorn Inn, 9260 Bridgeport Road, Richmond, BC

Stock Exchange

Ritchie Bros. Auctioneers Incorporated is listed on the New York Stock Exchange and trades under the symbol "RBA".

Transfer Agent

Communications concerning transfer requirements, address changes and lost certificates should be directed to:

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Auditors

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