

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from Robert S. Armstrong, Corporate Secretary, Ritchie Bros. Auctioneers Incorporated, 9200 Bridgeport Road, Richmond, British Columbia, Canada, V6X 1S1 (telephone: (604) 273-7564).

Secondary Offering

June 29, 1999



RITCHIE BROS. AUCTIONEERS INCORPORATED

US\$42,768,000
1,188,000 Common Shares

The common shares ("Common Shares") of Ritchie Bros. Auctioneers Incorporated ("Ritchie Bros." or the "Company") offered hereby (the "Offered Shares") are being sold by the Selling Shareholders named herein. As of May 31, 1999, the Selling Shareholders owned 4,943,226 Common Shares and, after giving effect to this offering, the Selling Shareholders would have owned 3,755,226 Common Shares, representing 22.46% of the Common Shares outstanding. See "Principal and Selling Shareholders." Ritchie Bros. will not receive any of the proceeds from the sale of the Offered Shares by the Selling Shareholders.

The Common Shares of the Company are listed for trading on the New York Stock Exchange (the "NYSE") under the symbol "RBA." On June 29, 1999 the closing price of the Common Shares on the NYSE was US\$36.00. See "Price Range of Common Shares."

See "Risk Factors" beginning on page 6 for a discussion of certain considerations relevant to an investment in the Offered Shares. In the opinion of counsel, the Offered Shares will as of the date of closing qualify for investment under certain statutes. See "Eligibility for Investment."

Price: US\$36.00 per Common Share

	<u>Public Offering Price</u>	<u>Underwriting Fee</u>	<u>Proceeds to the Selling Shareholders(1)</u>
Per Share	US\$36.00	US\$1.80	US\$34.20
Total(2)	US\$42,768,000	US\$2,138,400	US\$40,629,600

(1) Before deducting expenses of the offering payable by the Selling Shareholders estimated at US\$500,000.

(2) The Selling Shareholders have granted the Underwriters an option (the "Over-Allotment Option") exercisable for 30 days after the date hereof to purchase up to an additional 178,000 Common Shares on the same terms as set forth above to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total Public Offering Price, Underwriting Fee and Proceeds to the Selling Shareholders will be US\$49,176,000, US\$2,458,800 and US\$46,717,200, respectively. See "Plan of Distribution."

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when sold by the Selling Shareholders and delivered to and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Company and the Selling Shareholders by McCarthy Tétrault, Vancouver, British Columbia and Perkins Coie LLP, Portland, Oregon and on behalf of the Underwriters by Fasken Campbell Godfrey, Toronto, Ontario and Rogers & Wells LLP, New York, New York.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this offering will take place on or about July 6, 1999, but in any event not later than July 20, 1999, and that certificates for the Offered Shares will be available for delivery at such time.

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ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault and Fasken Campbell Godfrey, subject to compliance with the prudent investment standards and the general investment provisions and restrictions of the statutes referred to below (and, where applicable, the regulations thereunder) and, in certain cases, subject to the satisfaction of the requirements relating to investment or lending policies or goals and, in certain cases, the filing of such policies or goals, the Offered Shares will not, as of the date of closing, be precluded as investments by or under the following statutes:

<i>Insurance Companies Act</i> (Canada) <i>Trust and Loan Companies Act</i> (Canada) <i>Pension Benefits Standards Act, 1985</i> (Canada)	<i>Financial Institutions Act</i> (British Columbia) <i>Pension Benefits Standards Act</i> (British Columbia) <i>Loan and Trust Corporations Act</i> (Alberta)
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In the opinion of such counsel, the Offered Shares, as of the date of closing, will be qualified investments under the *Income Tax Act* (Canada) and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans and will not, on the date of closing, be foreign property for purposes of Part XI of the *Income Tax Act* (Canada).

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed with various securities commissions or similar authorities in Canada, are specifically incorporated by reference in and form an integral part of this Prospectus:

- (a) the Annual Information Form of the Company dated May 20, 1999 for the year ended December 31, 1998, including Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the year ended December 31, 1998 (the "1998 Management's Discussion and Analysis") (reproduced as Annex A hereto);
- (b) the Information Circular of the Company dated March 31, 1999 (except for the section entitled "Report on Executive Compensation") distributed in connection with the Company's annual general meeting held on May 14, 1999;
- (c) the consolidated financial statements of the Company for the years ended December 31, 1998 and 1997 (unaudited), the eight-month period ended December 31, 1997 and the year ended April 30, 1997, together with the notes thereto and the auditors' report thereon (the "Annual Consolidated Financial Statements") (reproduced as Annex B hereto);
- (d) the unaudited consolidated financial statements of the Company for the three-month periods ended March 31, 1999 and 1998 (the "Interim Consolidated Financial Statements" and, together with the Annual Consolidated Financial Statements, the "Consolidated Financial Statements") (reproduced, together with Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the three months ended March 31, 1999 (the "First Quarter Management's Discussion and Analysis" and, together with the 1998 Management's Discussion and Analysis, the "Management's Discussion and Analysis"), as Annex C hereto); and
- (e) the material change report of the Company dated March 1, 1999 relating to the Forke Acquisition referred to under "Recent Developments — Forke Acquisition."

All documents of the Company of the type referred to above (excluding any confidential material change reports) that are filed by the Company with a securities commission or any similar authority in Canada after the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein, or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from Robert S. Armstrong, Corporate Secretary, Ritchie Bros. Auctioneers Incorporated, 9200 Bridgeport Road, Richmond, British Columbia, Canada, V6X 1S1 (telephone: (604) 273-7564).

In this Prospectus, unless the context otherwise requires, "Ritchie Bros." or the "Company" refers to Ritchie Bros. Auctioneers Incorporated and its predecessor entities, either alone or together with its subsidiaries. Unless otherwise specified, references to years are references to calendar years and references to quarters are references to calendar quarters. Effective December 31, 1997, the Company changed its fiscal year end from April 30 to December 31. All information in this Prospectus assumes no exercise of the Over-Allotment Option, unless otherwise specified or the context otherwise requires. All dollar amounts are denominated in United States dollars.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to, and should be read in conjunction with, the more detailed information contained or incorporated by reference in this Prospectus.

The Company

Ritchie Bros. is the world's leading auctioneer of industrial equipment, operating through more than 50 locations throughout North America, Europe, Asia, Australia and the Middle East. The Company sells, through public auctions, a broad range of used industrial equipment, including equipment used in the construction, transportation, mining, forestry, petroleum and agricultural industries. In its 36 years of operation, Ritchie Bros. has auctioned over \$8.5 billion worth of equipment in over 1,750 auctions in 16 countries. In 1998, the Company sold over \$1.0 billion worth of industrial equipment.

Ritchie Bros. conducts its auctions on an unreserved basis. There are no minimum prices and consignors are not permitted to bid on their own equipment or in any way artificially affect selling prices. Every item is sold to the highest bidder on the day of the auction.

The Company's worldwide marketing efforts and reputation for conducting fair auctions, together with the fact that it does not charge buyers' premiums, enable Ritchie Bros. to attract a broad international base of customers to its auctions, thereby providing a global marketplace that can transcend local market conditions. Management believes that the Company's reputation and leading market position, as well as the breadth and international composition of the customers at Ritchie Bros.' auctions, result in a greater volume of consigned equipment and higher gross auction sales than in other auction venues.

Ritchie Bros.' auction business has experienced significant growth over the last five years. The Company's gross auction sales have grown from \$567.5 million in its fiscal year ended April 30, 1994 to \$1,087.8 million in its fiscal year ended December 31, 1998, representing a compound annual growth rate of 14.9%. During the same period, the Company's annual auction revenues have grown from \$50.1 million to \$94.9 million, representing a compound annual growth rate of 14.7%.

Ritchie Bros. was amalgamated on December 12, 1997 under, and is governed by, the *Canada Business Corporations Act*. The registered office of the Company is located at 1300 – 777 Dunsmuir Street, Vancouver, British Columbia, Canada V7Y 1K2. The Company's executive office is located at 9200 Bridgeport Road, Richmond, British Columbia, Canada V6X 1S1 and its telephone number is (604) 273-7564. The Company maintains a website at www.rbauktion.com. Ritchie Bros. Common Shares are listed for trading on the NYSE under the symbol "RBA."

The Offering

Offering 1,188,000 Common Shares.(1)

Common Shares Outstanding

Before and After the

Offering 16,717,066 Common Shares.(2)

Use of Proceeds..... All shares offered hereby are being sold by the Selling Shareholders (including the shares subject to the Over-Allotment Option). The Company will not receive any of the proceeds from the sale of the Offered Shares by the Selling Shareholders and will not be responsible for any of the expenses of this offering.

(1) Excludes 178,000 Common Shares which are subject to the Over-Allotment Option granted by the Selling Shareholders to the Underwriters in connection with this offering.

(2) As of May 31, 1999. Does not include (i) 204,100 Common Shares issuable upon the exercise of outstanding stock options; and (ii) 400,000 Common Shares issuable upon the exercise of outstanding warrants as referred to under "Recent Developments — Forke Acquisition."

RECENT DEVELOPMENTS

Forke Acquisition

On April 1, 1999, Ritchie Bros. completed the acquisition (the “Forke Acquisition”) of the industrial auction business of Forke, Inc. (“Forke”), a major auctioneer of industrial equipment that operated primarily in the United States. Consideration paid to Forke consisted of \$25.0 million in cash, 100,000 Common Shares and warrants to acquire 400,000 Common Shares prior to April 1, 2001 at an exercise price of \$26.69 per share. In related transactions, Ritchie Bros. has acquired an office building in Nebraska and has agreed to acquire land, buildings and other tangible assets, subject to satisfactory completion of customary due diligence. The office building and these other assets are being acquired for a combined purchase price of \$12.4 million.

Changes to the Company’s Network of Auction Sites

In March 1999, the Company chose to not renew its lease for its regional auction unit in the Philippines. The Company is currently in negotiations for an alternate site elsewhere in the region which would enable Ritchie Bros. to better serve the Asian market.

In April 1999, the Company opened a new auction site on the Gold Coast of Australia, near Brisbane, thereby upgrading its existing regional auction unit to a permanent auction site.

In May 1999, the Company purchased 60 acres of land in Montreal, Quebec with the intention of constructing a permanent auction site to better serve the Eastern Canadian market. The new site is expected to be completed in the first half of 2000 and will replace the Company’s existing Montreal based regional auction unit.

In June 1999, the Company opened a permanent auction site located in the Port of Moerdijk, near Rotterdam, The Netherlands. This site replaced the Company’s European regional auction unit and is now the Company’s main auction facility in Europe.

In addition to these sites, the Company is currently developing permanent auction sites in Morris (near Chicago), Illinois and Perris (near Los Angeles), California, both of which are scheduled to open in the fall of 1999. Assuming completion of the real property acquisitions related to the Forke Acquisition and after the opening of the Morris and Perris sites, the Company expects to be operating 19 permanent auction sites and three regional auction units by the end of 1999.

RISK FACTORS

Prospective investors should consider carefully the risk factors set forth below as well as the other information contained or incorporated by reference in this Prospectus prior to making an investment in the Offered Shares.

Potential Inability to Achieve and Manage Growth

A principal component of the Company's strategy is to continue to grow by increasing income from operations in the Company's existing markets and by expanding into new geographic markets. The Company is also assessing opportunities to expand its presence in auction market segments that the Company has not historically emphasized. The Company's future growth will depend upon a number of factors, both within and outside of the Company's control, including the Company's identification and development of new markets; the identification and acquisition on favorable terms of suitable new auction sites and, possibly, of suitable acquisition candidates; the ability to hire and train qualified personnel; the successful integration of new sites and any acquired businesses (including Forke, which was the Company's first material business acquisition) with the Company's existing operations; the acceptance by potential consignors and industrial equipment buyers of the auction process generally, as well as of the Company's expansion into new markets and market segments; the establishment and maintenance of favorable relationships with consignors and bidders in new markets and the maintenance of such relationships in existing markets; the receipt of any required governmental authorizations for proposed development or expansion; and the Company's ability to manage expansion and to obtain required financing. The failure to identify, purchase, develop and integrate new sites effectively could adversely affect the Company's financial condition and results of operations. There can be no assurance that the Company will successfully expand its operations or that any expansion will be profitable. Further, the results achieved by the Company to date may not be indicative of its prospects or its ability to penetrate new markets, many of which may have different competitive conditions and demographic characteristics than the Company's current markets. See "The Company — Growth Strategies" in the Annual Information Form which is attached as Annex A to this Prospectus.

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

Quarterly and Seasonal Variations in Operating Results

The Company's revenues and operating results historically have fluctuated from quarter to quarter. These fluctuations have been and are expected to continue to be caused by a number of factors, including the timing of auctions; seasonal results of operations (with peak auction revenues and operating income typically occurring in the second and fourth calendar quarters of each year, primarily due to the seasonal nature of the construction and natural resources industries); general economic conditions in the Company's markets; the timing of acquisitions and development of auction sites and related costs; and the effectiveness of integrating new sites or acquired businesses. Additionally, the Company generally incurs substantial costs in entering new markets and the profitability of operations at a new location is uncertain, in part because the number and size of auctions at new locations is more variable than at the Company's more established locations. These factors, among others, may cause the Company's results of operations in some future quarters to be below the expectations of investors or results of previous quarters, which could have a material adverse effect on the market price of the Common Shares. Further, the Company began incurring incremental operating costs associated with the Forke Acquisition as of April 1, 1999. Incremental gross auction sales and auction revenues associated with the Forke Acquisition are not expected to commence until July 1999. These incremental amounts are expected to be material, but the actual amounts are unknown as they will be dependent, in part, on the productivity of new employees hired in connection with the Forke Acquisition.

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

The Company generally offers its services to consignors of industrial equipment on a straight commission basis. In certain circumstances the Company will, subject to its evaluation of the equipment, either (i) offer to guarantee the consignor a minimum level of gross sale proceeds, regardless of the ultimate results of the auction or (ii) offer to purchase the equipment directly from the consignor and then auction such equipment as principal. If auction proceeds are less than the guaranteed amount, the Company's commission would be reduced or, if sufficiently lower, the Company would incur a loss. If auction proceeds are less than the purchase price paid by the Company, the Company would incur a loss. Because all its auctions are unreserved, the Company cannot protect itself against such losses by bidding on or acquiring any items at the auctions. During the four fiscal years ended April 30, 1997, and the fiscal year ended December 31, 1998, guarantees and purchases and sales by the Company as principal averaged in the aggregate 37% of the Company's annual gross auction sales. See "The Company — Operations" in the Annual Information Form attached as Annex A to this Prospectus.

Occasionally, the Company advances to consignors a portion of the estimated auction proceeds prior to the auction. The Company generally makes such advances only after taking possession of the equipment to be auctioned and upon receipt of a security interest in the equipment to secure the obligation. If the Company were unable to auction the equipment or if auction proceeds were less than amounts advanced, the Company could incur a loss. See "The Company — Operations" in the Annual Information Form attached as Annex A to this Prospectus.

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

Adverse Changes in Economic Conditions; Industry Cyclicity

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

Risks of Competition

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

Risks of Noncompliance with Governmental and Environmental Regulation

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

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

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

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

Potential Inadequacy of Insurance Coverage

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

Risks of International Operations

The Company conducts auctions in North America, Europe, Asia, Australia and the Middle East and intends to expand its international presence. The Company's operations in international markets may be affected by fluctuating currency exchange rates and by changing economic, political and governmental conditions and regulations.

Dependence on Key Personnel

The Company's future performance and development will depend to a significant extent on the efforts and abilities of David E. Ritchie, a co-founder of the Company and its Chairman and Chief Executive Officer, and of its other executive officers, particularly C. Russell Cmolik, President and Chief Operating Officer. The loss of the services of one or more of such individuals or other senior managers could have a material adverse effect on the Company's business. The Company does not maintain key man insurance for any of its employees. The

Company's ongoing success will depend on its continuing ability to attract, develop and retain skilled personnel in all areas of its business.

Control by Principal Shareholders

Upon consummation of this offering, five of the Company's shareholders, including David E. Ritchie and C. Russell Cmolik, will beneficially own, in the aggregate, a majority of the Company's issued and outstanding Common Shares. As of May 31, 1999, after giving effect to this offering, the directors and officers of the Company, as a group (including such five shareholders), would have beneficially owned, directly or indirectly, approximately 67.3% of the issued and outstanding Common Shares. As a result, the directors and officers, if they act together, would be able to elect all the directors and exercise significant control over the business, policies and affairs of the Company. Such ownership and control may have the effect of delaying or preventing a takeover of the Company by one or more third parties, which could deprive the Company's shareholders of a control premium that might otherwise be realized by them in connection with an acquisition of the Company. See "Principal and Selling Shareholders."

Future Sales of Securities

Future sales of substantial amounts of Common Shares by the Company's shareholders after this offering, or the perception that such sales could occur, could adversely affect the market price of the Common Shares. As of May 31, 1999, 16,717,066 Common Shares were issued and outstanding. Upon consummation of this offering, the Common Shares offered hereby and the 3,335,000 Common Shares issued in the Company's initial public offering (the "IPO") in March 1998 will be freely tradeable without restriction under applicable U.S. securities laws unless held by an "affiliate" of the Company (as that term is defined in the United States Securities Act of 1933, as amended (the "Securities Act")). The remaining Common Shares will be eligible for sale, subject, in certain circumstances, to any restrictions under Rule 144 of the Securities Act, restrictions under Canadian securities laws and contractual restrictions on future sales or transfers. See "Principal and Selling Shareholders." In addition to any other restrictions, Common Shares held by affiliates of the Company are subject to the volume limitation requirements under Rule 144.

The Company has also reserved 1,454,767 Common Shares for issuance under the Company's stock option plan, of which 204,100 Common Shares were reserved for issuance pursuant to outstanding options as of May 31, 1999. All Common Shares issuable upon exercise of options granted under the stock option plan have been registered for resale under the Securities Act. In addition, the Company has issued warrants to acquire 400,000 Common Shares in connection with the Forke Acquisition. See "Description of Share Capital."

Possible Volatility of Share Price

The market price of the Common Shares is subject to significant variation due to fluctuations in the Company's operating results; changes in or actual results varying from earnings or other estimates made by securities analysts; the degree of success the Company achieves in implementing its growth strategy; changes in business or regulatory conditions affecting the Company, its customers or its competitors; and other factors both within and outside of the Company's control. In addition, the stock market may experience volatility that affects the market prices of companies in ways unrelated to the operating performance of such companies, and such volatility may adversely affect the market price of the Common Shares.

Potential Adverse Impact of Preferred Shares

The Board of Directors of the Company, without further shareholder approval, can issue Preferred Shares with voting and conversion rights which could adversely affect the voting power of the holders of Common Shares. No Preferred Shares will be outstanding upon consummation of this offering and the Company currently has no plan to issue Preferred Shares. The issuance of Preferred Shares in certain circumstances may have the effect of delaying or preventing a change of control of the Company, may discourage bids for the Common Shares at a premium over the market price of the Common Shares and may adversely affect the market price of Common Shares. See "Description of Share Capital."

Year 2000 Compliance

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer programs or hardware that have date-sensitive software or embedded chips may recognize using "00" as the year 1900 rather than the year 2000. If the Company and/or third parties on which the Company relies do not successfully update computer systems to avoid this issue, the Company and/or third parties upon which the Company relies could experience system failures or miscalculations and, as a result, disruptions in operations.

The Company initiated its Year 2000 compliance program in 1997 and believes that only minor modifications remain to be completed to make its systems Year 2000 compliant. The Company is presently developing a Year 2000 contingency plan which it expects to be substantially completed in June 1999. However, there can be no assurance that the Company will be in full Year 2000 compliance or that it will have developed a successful contingency plan by the Year 2000. Failure by the Company or any of its key suppliers or customers 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Year 2000 Compliance" in the Annual Information Form attached as Annex A to this Prospectus.

PRICE RANGE OF COMMON SHARES

The Common Shares of the Company have been listed and traded on the NYSE since March 10, 1998. The NYSE is the principal market for the Common Shares. The following table sets forth the high and low closing prices per Common Share on the NYSE during the periods indicated, according to published sources.

	NYSE	
	High	Low
	(US\$)	
1998		
First Quarter (from March 10)	\$24.6250	\$21.1250
Second Quarter	\$28.0000	\$23.8125
Third Quarter	\$29.1250	\$22.0625
Fourth Quarter	\$26.9375	\$20.0625
1999		
First Quarter	\$34.2500	\$25.4375
April	\$38.7500	\$34.1250
May	\$38.7500	\$33.0000
June (through June 29)	\$37.7500	\$35.3125

On June 29, 1999, the closing price of the Common Shares on the NYSE was US\$36.00 per share.

DIVIDEND POLICY

The declaration and payment of dividends on the Common Shares will be subject to the discretion of the Board of Directors of the Company and the retention of sufficient cash to fund the Company's growth initiatives. Because Ritchie Bros. is a holding company with no material assets other than the shares of its subsidiaries, its ability to pay dividends on the Common Shares is dependent on the income and cash flow of its subsidiaries. No financing agreements to which the subsidiaries of Ritchie Bros. are party currently restrict those subsidiaries from paying dividends to Ritchie Bros. The Company has not declared or paid any dividends on the Common Shares since its IPO.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial information presented below should be read in conjunction with the Consolidated Financial Statements included in Annex B and Annex C to this Prospectus and the Management's Discussion and Analysis included in Annex A and Annex C to this Prospectus. Effective December 31, 1997, the Company changed its fiscal year end from April 30 to December 31. All dollar amounts in the table are in thousands, except per share data.

	Fiscal Year Ended April 30,			Eight Months Ended December 31,	Year Ended December 31,		Three Months Ended March 31,	
	1995(1)	1996(1)	1997(1)	1997(1)	1997(1)	1998	1998	1999
					(unaudited)		(unaudited)	(unaudited)
Income Statement Data:								
Auction revenues	\$ 51,326	\$ 65,306	\$ 72,186	\$ 60,034	\$ 85,009	\$ 94,899	\$ 21,229	\$ 18,013
Direct expenses	(12,979)	(13,138)	(13,908)	(13,041)	(17,351)	(16,010)	(3,567)	(2,752)
	38,347	52,168	58,278	46,993	67,658	78,889	17,662	15,261
Depreciation	(1,708)	(1,820)	(2,014)	(1,540)	(2,548)	(2,752)	(600)	(734)
General & administrative expense ...	(24,628)	(26,848)	(31,099)	(27,414)	(37,724)	(39,315)	(11,732)	(11,902)
Employee equity participation expense(2)	—	—	—	(10,346)	(10,346)	—	—	—
Income from operations	12,011	23,500	25,165	7,693	17,040	36,822	5,330	2,625
Interest expense	(1,274)	(1,104)	(1,081)	(1,380)	(2,034)	(1,569)	(741)	(243)
Other income	677	1,179	917	576	754	3,251	323	267
Income before income taxes	11,414	23,575	25,001	6,889	15,760	38,504	4,912	2,649
Income taxes	(2,975)	(4,428)	(5,992)	(4,491)	(7,438)	(13,670)	(1,535)	(1,017)
Net income	<u>\$ 8,439</u>	<u>\$ 19,147</u>	<u>\$ 19,009</u>	<u>\$ 2,398</u>	<u>\$ 8,322</u>	<u>\$ 24,834</u>	<u>\$ 3,377</u>	<u>\$ 1,632</u>
Net income per share								
— basic	\$ 0.66	\$ 1.51	\$ 1.49	\$ 0.19	\$ 0.65	\$ 1.56	\$ 0.24	\$ 0.10
— diluted	0.66	1.51	1.49	0.18	0.64	1.54	0.24	0.10
US GAAP — Net income(3)	<u>\$ 8,439</u>	<u>\$ 19,147</u>	<u>\$ 19,009</u>	<u>\$ 1,045</u>	<u>\$ 6,969</u>	<u>\$ 24,814</u>	<u>\$ 3,377</u>	<u>\$ 1,632</u>
US GAAP — Net income per share								
— basic	\$ 0.66	\$ 1.51	\$ 1.49	\$ 0.08	\$ 0.54	\$ 1.56	\$ 0.24	\$ 0.10
— diluted	0.66	1.51	1.49	0.08	0.54	1.54	0.24	0.10
Weighted average number of shares outstanding(4)								
— basic	12,715,667	12,715,667	12,715,667	12,958,753	12,877,777	15,918,214	13,991,833	16,572,152
— diluted	12,715,667	12,715,667	12,715,667	13,042,069	12,933,701	16,116,242	14,188,166	16,783,199
Balance Sheet Data								
(end of period):								
Working capital (including cash) ...	\$ 21,822	\$ 33,132	\$ 39,707	\$ 3,322	\$ 3,322	\$ 49,149	\$ 50,324	\$ 49,193
Total assets	98,621	150,969	142,858	70,460	70,460	152,593	194,468	238,815
Long term debt	6,985	6,547	5,755	4,623	4,623	8,768	4,382	10,648
Total shareholders' equity	37,718	48,801	59,325	25,706	25,706	104,172	80,941	106,727
Selected Operating Data								
(unaudited):								
Gross auction sales(5)	\$ 634,058	\$ 752,735	\$ 792,865	\$ 681,425	\$ 946,415	\$1,087,800	\$ 227,637	\$ 201,800
Auction revenues as percentage of gross auction sales	8.09%	8.68%	9.10%	8.81%	8.98%	8.72%	9.33%	8.93%
Number of consignors	10,460	10,744	12,088	9,985	13,636	14,432	2,740	2,545
Number of buyers	27,401	27,837	30,630	23,917	33,340	34,613	6,631	6,568
Number of permanent auction sites (end of period)	11	12	13	13	13	13	13	13

(footnotes on following page)

- (1) For all pre-1998 periods presented, the majority of the Company's business operations was conducted by predecessor entities that were partnerships. Consequently, many financial statement items for or in these prior periods are not comparable with post-1997 results. In particular, the pre-1998 balances of the following line items are not meaningful for comparative purposes: general and administrative expense, income from operations, income before income taxes, income taxes, net income and net income per share.
- (2) Non-recurring employee equity participation expense for the periods ended December 31, 1997 reflects grants to employees of options to purchase 196,333 Common Shares with an exercise price of \$0.10 per share, and issuances to other employees of 497,999 Common Shares at the price of \$0.10 per share. These option grants and Common Share issuances were made prior to the IPO.
- (3) Net income under United States general accepted accounting principles for the periods ended December 31, 1997 reflects restructuring expenses and taxes of \$1.4 million incurred in connection with a corporate reorganization (these expenses are reflected under Canadian generally accepted accounting principles as reductions to shareholders' equity in the Consolidated Financial Statements).
- (4) Weighted average number of shares outstanding for all periods has been calculated after giving retroactive effect to the 12,715,667 Common Shares issued in connection with a corporate reorganization that was completed in 1997 as if those Common Shares had been issued at the beginning of the earliest period presented.
- (5) Gross auction sales represent the aggregate selling prices of all items sold at Ritchie Bros.' auctions. Gross auction sales are key to understanding the financial results of the Company, since the amount of revenues and, to a lesser extent, certain expenses, are dependent upon them.

DESCRIPTION OF SHARE CAPITAL

The following summary describes all provisions of the Company's Articles of Amalgamation and by-laws, and applicable laws that are material to an understanding of the Common Shares, the Senior Preferred Shares and the Junior Preferred Shares of the Company (the Senior and Junior Preferred Shares being the "Preferred Shares"). This summary does not purport to be complete and is subject to, and qualified in its entirety by, the complete provisions of the Articles of Amalgamation and by-laws of Ritchie Bros. and by the provisions of applicable law.

The authorized share capital of Ritchie Bros. consists of an unlimited number of Common Shares without par value, 16,717,066 shares of which were outstanding as of May 31, 1999, an unlimited number of Senior Preferred Shares without par value, none of which were issued and outstanding as of May 31, 1999, and an unlimited number of Junior Preferred Shares without par value, none of which were outstanding as of May 31, 1999.

Common Shares

Holders of Common Shares are entitled to one vote for each share held on all matters submitted to a vote of the shareholders, including the election of directors. Accordingly, holders of the majority of the Common Shares entitled to vote in any election of directors may elect all of the directors standing for election. The Articles of Amalgamation of Ritchie Bros. do not provide for cumulative voting in the election of directors. There are no limitations on the rights of non-resident or foreign owners to hold or vote Common Shares. Subject to preferences that may be applicable to any Preferred Shares outstanding at the time, holders of Common Shares are entitled to receive rateably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefor. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of Ritchie Bros., holders of Common Shares are entitled to share rateably in all assets remaining after payment of liabilities of Ritchie Bros. and the liquidation preferences, if any, of any outstanding Preferred Shares. Holders of Common Shares have no pre-emptive rights and no rights to convert their Common Shares into any other securities and there are no redemption provisions with respect to such shares. The rights, preferences and privileges of holders of Common Shares are subject to, and may be adversely affected by, the rights of the holders of any series of Preferred Shares which Ritchie Bros. may designate and issue in the future.

Preferred Shares

The Articles of Amalgamation of Ritchie Bros. provide that the Board of Directors, without further action by the shareholders, may issue Preferred Shares in one or more series and may fix or alter the relative, participating, optional or other rights, preferences, privileges and restrictions, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation preferences and conversion rights, and the description of shares constituting any wholly unissued series of Preferred Shares. The Board of Directors, without further shareholder approval, can issue Preferred Shares with voting and conversion rights which could adversely affect the voting power of the holders of Common Shares. No Preferred Shares were outstanding as of May 31, 1999 and Ritchie Bros. currently has no plans to issue Preferred Shares. The issuance of Preferred Shares in certain circumstances may have the affect of delaying or preventing a change of control of the Company without further action by the shareholders, may discourage bids for the Common Shares at a premium over the market price of the Common Shares and may adversely affect the market price and the voting and other rights of the holders of Common Shares.

Modifications, Subdivisions and Consolidations

In accordance with the *Canada Business Corporations Act*, the amendment of certain rights of holders of a class of shares, including Common Shares, requires the approval of not less than two-thirds of the votes cast by the holders of such shares voting separately as a class at a special meeting of such holders. In circumstances where the rights of the class of shares may be amended, the shareholders have the right under the *Canada Business Corporations Act* to dissent from such amendment and require Ritchie Bros. to pay them the then fair value of the shares.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets out information with respect to the ownership (subject to certain joint ownership and family trust interests) of Common Shares, as of May 31, 1999, for each person who beneficially owns or exercises control or direction over 5% or more of the outstanding Common Shares (the “Principal Shareholders”) or who is selling Common Shares in this offering (the “Selling Shareholders”).

Name and Position with the Company	Before Giving Effect to the Offering		No. of Common Shares Offered	After Giving Effect to the Offering	
	No. of Common Shares	% of Common Shares Outstanding		No. of Common Shares	% of Common Shares Outstanding
Principal Shareholders:					
David E. Ritchie, Chairman and Chief Executive Officer	4,938,223	29.54%	—	4,938,223	29.54%
C. Russell Cmolik, President and Chief Operating Officer	2,098,842	12.56%	—	2,098,842	12.56%
Total (Principal Shareholders)	7,037,065	42.10%	—	7,037,065	42.10%
Selling Shareholders:					
Roger W. Rummel, Vice President — Northwest, Southwest and Mexico Divisions . . .	617,299	3.69%	173,939	443,360	2.65%
Marvin R. Chantler, Vice President — Eastern Canada and Great Lakes Divisions . .	617,264	3.69%	173,939	443,325	2.65%
Martin E. Pope, Vice President — Southeast Division	617,264	3.69%	17,394	599,870	3.59%
Edward H. Banser, Vice President — South Central Division	617,264	3.69%	173,939	443,325	2.65%
Frank S. McFadden, Vice President/Senior Valuations Analyst	375,360	2.25%	104,363	270,997	1.62%
Michael G. Ritchie, Vice President — Northeast Division	370,394	2.22%	60,878	309,516	1.85%
Robert L. Brawley, Vice President	370,394	2.22%	106,972	263,422	1.58%
Robert J. Carswell, Vice President/Senior Valuations Analyst	370,360	2.22%	104,363	265,997	1.59%
Donald F. Chalmers, Vice President — Western Canada and Prairie Divisions.....	370,360	2.22%	104,363	265,997	1.59%
Kenneth D. Asbury, Vice President — Central and North Central Divisions	370,360	2.22%	106,972	263,388	1.58%
John T. Wild, Vice President — Administration	246,907	1.48%	60,878	186,029	1.11%
Total (Selling Shareholders)	4,943,226	29.57%	1,188,000	3,755,226	22.46%
Total (Principal and Selling Shareholders)	11,980,291	71.67%	1,188,000	10,792,291	64.56%

Prior to the IPO, certain shareholders of the Company (including all of the Principal and Selling Shareholders) entered into an escrow agreement (the “Escrow Agreement”) which restricts the resale of 12,098,402 of the Common Shares owned by such shareholders and provides for the release of one-third of these Common Shares on each of March 10, 1999, March 10, 2000 and March 10, 2001. In March 1999, 4,032,800 Common Shares became eligible for release from the restrictions under the Escrow Agreement. As of May 31, 1999, none of the released Common Shares had been transferred or sold. This offering covers 1,188,000 of these Common Shares (1,366,000 if the Over-Allotment Option is exercised in full).

As of May 31, 1999, after giving effect to this offering, the directors and officers of the Company (including all of the Principal and Selling Shareholders), as a group, would have beneficially owned, directly or indirectly, approximately 67.3% of the issued and outstanding Common Shares.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the underwriting agreement dated as of June 29, 1999 (the “Underwriting Agreement”), ING Baring Furman Selz LLC, Credit Suisse First Boston Corporation and William Blair & Company, L.L.C. (collectively, the “Underwriters”) have severally agreed to purchase, and the Selling Shareholders have severally agreed to sell to them, the aggregate number of Offered Shares set forth opposite their respective names:

<u>Name</u>	<u>Number of Offered Shares</u>
ING Baring Furman Selz LLC	415,800
Credit Suisse First Boston Corporation	415,800
William Blair & Company, L.L.C.	<u>356,400</u>
Total	<u>1,188,000</u>

The Underwriting Agreement provides that the obligations of the several Underwriters are subject to the approval of certain legal matters by counsel and various other conditions. The nature of the Underwriters’ obligations is such that they are committed to purchase all of the above Offered Shares if any are purchased. The Underwriters propose to offer the Offered Shares in part directly to the public at the public offering price set forth on the cover page of this Prospectus and in part to certain dealers at such price less a concession not in excess of \$1.08 per share. The Underwriters may allow, and such dealers may re-allow, a concession not in excess of \$0.10 per share to certain other dealers. After the offering, the offering price and other selling terms may be changed by the Underwriters.

The offering is being made concurrently in the United States and in the Provinces of British Columbia and Alberta in Canada pursuant to the multijurisdictional disclosure system implemented by securities regulatory authorities in the United States and Canada. Each of the Underwriters will offer the Offered Shares for sale in the United States and Canada either directly or through their respective broker-dealer affiliates or agents registered in each jurisdiction. Subject to applicable law, the Underwriters may offer the Offered Shares outside the United States and Canada. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates representing the Offered Shares will be available for delivery at the closing, scheduled to take place on July 6, 1999 or such later date as the Company and the Underwriters may agree, but in any event not later than July 20, 1999.

The Selling Shareholders have granted the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of 178,000 additional Common Shares to cover over-allotments, if any. If the Underwriters exercise the Over-Allotment Option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of shares to be purchased by each of them, as shown in the foregoing table, bears to the Common Shares offered.

Certain persons participating in the offering may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Common Shares at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids or effecting syndicate covering transactions. A stabilizing bid means the placing of any bid or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of the Common Shares. A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with the offering. Such transactions may be effected on the NYSE, in the over-the-counter market, or otherwise. Such stabilizing, if commenced, may be discontinued at any time.

The Company and each of the Selling Shareholders have agreed that, for periods of 120 days and 90 days, respectively, following the date of this Prospectus, they will not, without the prior written consent of ING Baring Furman Selz LLC, directly or indirectly, offer for sale, sell, contract to sell, or grant any option to purchase or otherwise dispose of any Common Shares, except that the Company may grant options under its

stock option plan, may issue Common Shares pursuant to the exercise of outstanding options, may issue Common Shares pursuant to the exercise of the warrants issued in connection with the Forke Acquisition and may issue Common Shares (or options or other rights to purchase Common Shares) in connection with any acquisitions the Company may complete during that period.

The Company and the Selling Shareholders have severally agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act and applicable Canadian securities legislation, or to contribute to payments that the Underwriters may be required to make in respect thereof.

The Common Shares are listed for trading on the NYSE under the symbol “RBA.”

LEGAL MATTERS

Certain matters of Canadian law will be passed upon by McCarthy Tétrault, Vancouver, British Columbia for the Company and the Selling Shareholders and by Fasken Campbell Godfrey, Toronto, Ontario for the Underwriters. Certain United States legal matters will be passed upon by Perkins Coie LLP, Portland, Oregon for the Company and for the Selling Shareholders and by Rogers & Wells LLP, New York, New York for the Underwriters. At the date of this Prospectus, the partners and associates of these firms collectively owned beneficially, directly or indirectly, less than 1% of the outstanding Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The Company’s auditors are KPMG LLP, Chartered Accountants, Vancouver, British Columbia.

The transfer agent and registrar for the Common Shares in Canada is The Trust Company of Bank of Montreal at its principal office in Vancouver, British Columbia, and in the United States is The Bank of Montreal Trust Company at its office in New York, New York.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in several of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt, or deemed receipt, of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies of rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF THE COMPANY

Dated: June 29, 1999

The foregoing, together with the documents incorporated herein by reference and the information deemed to be incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities laws of the provinces of British Columbia and Alberta and does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

(signed) DAVID E. RITCHIE
Chairman and Chief Executive Officer

(signed) PETER J. BLAKE
Vice President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(signed) CHARLES E. CROFT
Director

(signed) G. EDWARD MOUL
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: June 29, 1999

To the best of our knowledge, information and belief, the foregoing, together with the documents incorporated herein by reference and the information deemed to be incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities laws of the provinces of British Columbia and Alberta and does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

CREDIT SUISSE FIRST BOSTON SECURITIES CANADA INC.

By: (signed) DARIN E. DESCHAMPS

The following includes the names of every person or company having an interest, directly or indirectly, to the extent of not less than 5% in the capital of:

Credit Suisse First Boston Securities Canada Inc.: an indirect subsidiary of Credit Suisse First Boston, a Swiss bank.

ANNEX A

RITCHIE BROS. AUCTIONEERS INCORPORATED

ANNUAL INFORMATION FORM FOR THE YEAR ENDED DECEMBER 31, 1998

May 20, 1999

**Ritchie Bros. Auctioneers Incorporated
9200 Bridgeport Road
Richmond, British Columbia
Canada V6X 1S1
(604) 273-7564
www.rbauction.com**

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DEFINITIONS

Unless the context otherwise requires, “Ritchie Bros.” or the “Company” refers to Ritchie Bros. Auctioneers Incorporated and its predecessor entities, either alone or together with its subsidiaries. Unless otherwise specified, references to years are references to calendar years and references to quarters are references to calendar quarters. All dollar amounts are denominated in U.S. Dollars. Effective December 31, 1997, the Company changed its fiscal year end from April 30 to December 31.

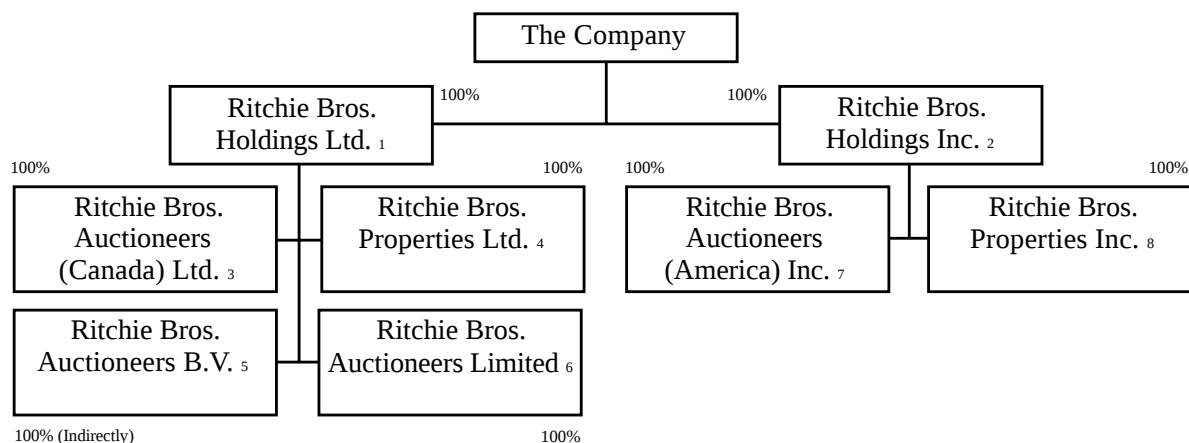
As used in this Annual Information Form,

- “auction revenues” include commissions earned from consignors through both straight commission and gross guarantee contracts, plus the net profit on the sale of lots purchased and sold by the Company as principal;
- “bidder” refers to a person or company that registers to bid at an auction;
- “buyer” refers to a person or company that makes the highest bid on a particular lot and is therefore the purchaser of that lot;
- “Common Shares” means the common shares without par value of the Company;
- “consignor” refers to a person or company that is selling a lot or lots at an auction;
- “Forke” refers to Forke, Inc. and its predecessor entities, either alone or together with its subsidiaries;
- “gross auction sales” represent the aggregate selling prices of all lots sold at an auction or auctions; and
- “lot” refers to an item being sold at auction.

THE COMPANY

Ritchie Bros. Auctioneers Incorporated was amalgamated on December 12, 1997 under, and is governed by, the *Canada Business Corporation Act*. The registered office of the Company is located at 1300 – 777 Dunsmuir Street, Vancouver, British Columbia, Canada V7Y 1K2. The Company's executive office is located at 9200 Bridgeport Road, Richmond, British Columbia, Canada V6X 1S1 and its telephone number is (604) 273-7564. The Company maintains a website at www.rbauktion.com.

The following diagram illustrates the primary intercorporate relationships of the Company and its principal operating subsidiaries:



Notes:

1. Ritchie Bros. Holdings Ltd. is a corporation continued under the laws of Canada.
2. Ritchie Bros. Holdings Inc. is a corporation amalgamated under the laws of the state of Washington, U.S.A.
3. Ritchie Bros. Auctioneers (Canada) Ltd. is a corporation incorporated under the laws of Canada.
4. Ritchie Bros. Properties Ltd. is a corporation incorporated under the laws of Canada.
5. Ritchie Bros. Auctioneers B.V. is a corporation incorporated under the laws of The Netherlands.
6. Ritchie Bros. Auctioneers Limited is a corporation incorporated under the laws of Cyprus.
7. Ritchie Bros. Auctioneers (America) Inc. is a corporation incorporated under the laws of the state of Washington, U.S.A.
8. Ritchie Bros. Properties Inc. is a corporation incorporated under the laws of the state of Washington, U.S.A.

Overview

Ritchie Bros. is the world's leading auctioneer of industrial equipment, operating through more than 50 locations throughout North America, Europe, Asia, Australia and the Middle East. The Company sells, through public auctions, a broad range of used industrial equipment, including equipment used in the construction, transportation, mining, forestry, petroleum and agricultural industries. In its 36 years of operation, Ritchie Bros. has auctioned over \$8.5 billion worth of equipment in over 1,750 auctions in 16 countries. In 1998, the Company sold over \$1 billion worth of industrial equipment.

Ritchie Bros. conducts its auctions on an unreserved basis. There are no minimum prices and consignors are not permitted to bid on their own equipment or in any way artificially affect selling prices. Every item is sold to the highest bidder on the day of the auction.

The Company's worldwide marketing efforts and reputation for conducting fair auctions, together with the fact that it does not charge buyers' premiums, enable Ritchie Bros. to attract a broad international base of customers to its auctions, thereby providing a global marketplace that can transcend local market conditions. Management believes that the Company's reputation and leading market position, as well as the breadth and international composition of the customers at Ritchie Bros.' auctions, result in a greater volume of consigned equipment and higher gross auction sales than in other auction venues.

Ritchie Bros.' auction business has experienced significant growth over the last five years. During that period, the Company's gross auction sales have grown from \$567.5 million in its fiscal year ended April 30, 1994 to \$1,087.8 million in its fiscal year ended December 31, 1998, representing a compound annual growth rate of 14.9%. During the same period, the Company's annual auction revenues have grown from \$50.1 million to \$94.9 million, representing a compound annual growth rate of 14.7%.

History and Development of the Business

Ritchie Bros. held its first major industrial auction in 1963, selling over \$600,000 worth of construction equipment in Radium, British Columbia. The success of this auction prompted Ken, John and Dave Ritchie to focus their attention on industrial auctions. While the Company's early auction sales were held primarily in Western Canada, Ritchie Bros. expanded eastward through the 1960s.

By 1970, the Company had established operations in the U.S. and held its first U.S. sale in Beaverton, Oregon. Throughout the 1970s and 1980s, additional auctions were held across Canada and in an increasing number of American states. In 1987, the Company held its first European auctions, in Liverpool and Rotterdam. Ritchie Bros.' first Australian auction was held in 1990. This was followed by expansion into Asia and subsequent sales in Hong Kong, Japan, the Philippines and Thailand. The Company held its first Mexican auction in 1995 and its first Middle Eastern auction, in Dubai, in 1997. By the end of 1998, Ritchie Bros. had conducted over 1,750 auctions in 16 countries.

In 1994, Ritchie Bros. introduced its prototype auction facility, opening new permanent auction sites in Fort Worth, Texas and Olympia, Washington that represented significant improvements over the facilities being used at the time by equipment auctioneers. The Company has since constructed similar buildings in various locations in Canada, the U.S., Europe and Australia.

The Company has always used available technologies to augment its live auctions and enhance customer service. Ritchie Bros. maintains a website and has been active on the internet since 1996 when it introduced its first website as a marketing tool, allowing the Company to communicate with international customers who otherwise would not have timely access to auction information. The Company's current website provides customers with a wide range of features in multiple languages, giving customers current information about the equipment consigned to Ritchie Bros. auctions. The site also facilitates internet-based absentee bidding, on-line consignments and the ability to broadcast live auctions.

In March 1998, Ritchie Bros. completed its initial public offering (the "IPO") of Common Shares, selling 3,335,000 Common Shares at \$17.00 per share. The Company allocated the net proceeds of approximately \$54.0 million to the acquisition and development of additional permanent auction sites, the replacement or upgrade of certain existing permanent sites and general corporate purposes. Ritchie Bros.' Common Shares trade on the New York Stock Exchange under the ticker symbol "RBA."

On April 1, 1999, Ritchie Bros. completed the acquisition (the "Forke Acquisition") of the industrial auction business of Forke, a major auctioneer of industrial equipment that operated primarily in the United States. Consideration paid to Forke consisted of \$25.0 million in cash, 100,000 Common Shares and warrants to acquire 400,000 Common Shares prior to April 1, 2001 at an exercise price of \$26.69 per share. In related transactions, Ritchie Bros. has acquired an office building in Nebraska and has agreed to acquire land, buildings and other tangible assets, subject to satisfactory completion of customary due diligence. The office building and these other assets are being acquired for a combined purchase price of \$12.4 million. These potential acquisitions include permanent auction sites in Albuquerque, New Mexico; Statesville, North Carolina; and Ocala, Florida. Assuming completion of these real property acquisitions, and after the planned

opening of additional permanent auction sites in Rotterdam, The Netherlands (which will replace an existing regional auction unit), Morris (near Chicago), Illinois and Perris (near Los Angeles), California, the Company expects to be operating 17 permanent auction sites and five regional auction units.

Industry

Ritchie Bros. operates in the auction segment of the used equipment marketplace. Management believes that of the approximately \$1 trillion of used industrial equipment in existence worldwide, an estimated \$100 billion of used equipment changes ownership each year. Of this total, only a fraction is currently traded through auctions, with the majority being sold directly or through dealers and brokers. The international used equipment market includes both mobile and stationary equipment, trucks and trailers produced by manufacturers such as Case, Caterpillar, Hitachi, Ingersoll Rand, John Deere, Kenworth, Komatsu, Mack and Volvo for the construction, mining, forestry, petroleum, agriculture and transportation industries, among others. Examples of industrial equipment include crawler tractors, excavators, loader backhoes and wheel loaders. Much of the equipment can be used in multiple industries and in diverse geographic locations.

Growing Market for Used Industrial Equipment. The international used industrial equipment market has experienced substantial growth in recent years as a result of the following factors:

- An increasing, cumulative supply of used equipment, as a result of the substantial ongoing production of new industrial equipment by the major manufacturers.
- Rising turnover rates among equipment owners and sales of idle or underutilized equipment, resulting from the increase in the size of rental fleets as well as the global trends toward outsourcing and reducing investment in capital assets.
- Growing demand for used industrial equipment caused by increased infrastructure expenditures in emerging markets and worldwide economic growth.
- Increasing preference of equipment users to purchase high quality used equipment instead of purchasing new equipment at a higher initial cost, particularly in times of economic uncertainty.

Growth of the Auction Segment of the Used Industrial Equipment Market. The industrial equipment auction market has grown rapidly in recent years, as evidenced by the Company's own gross auction sales having more than doubled over the last six years. Management believes that auctions represent an increasingly important distribution channel for industrial equipment for the following reasons:

- The ability of auctioneers to market a wide range of equipment and related assets and therefore offer a comprehensive service to buyers and sellers.
- The increasing preference of sellers to access the auction marketplace in order to achieve a sale quickly and to maximize proceeds.
- The ability of auctioneers to deliver high net proceeds on the sale of equipment.
- The convenience of the auction marketplace to buyers, who often want to purchase many different types of equipment produced by different manufacturers.
- The increasing acceptance of the auction method of buying and selling all manner of goods, due in part to the recent high profile of internet auction companies.

Attractiveness of Industrial Equipment Auction Market. In addition to the growth of both the used equipment market and the auction segment of that market, management believes that there are certain compelling characteristics of the industrial equipment auction business model:

- The industrial equipment auction business is relatively insulated from cyclical economic trends. In many cases, economic fluctuations or downturns can lead to increased levels of used equipment for consignment, and in greater demand for used, rather than new, equipment. For example, Ritchie Bros.' gross auction sales increased during the economic recessions of the 1980's and 1990's.

- Industrial equipment auctioneers typically are not restricted to selling lines of equipment provided by a particular manufacturer or manufactured for a particular industry, or to holding auctions in particular geographic regions. As a result, auction companies can respond quickly to changing market forces and address a variety of customer demands.
- The industrial equipment auction business is not capital intensive and auction companies do not bear the risks associated with holding inventory over extended periods.
- The industrial equipment auction industry is generally fragmented and Ritchie Bros. is the only participant that conducts auctions on a global scale.
- Used industrial equipment is well-suited to the auction method of buying and selling because items of used equipment cannot be valued on a commodity basis. The unreserved auction method gives buyers and sellers confidence that the equipment has traded for a fair market price.

Competitive Advantages

Ritchie Bros. has several key strengths that provide distinct competitive advantages. Management believes that these advantages have enabled the Company to attract an increasing number of consignors and bidders to its auctions, thereby achieving significant and profitable growth.

Reputation for Conducting Only Unreserved Auctions. Management believes that the Company's highly publicized commitment to fair dealing and the unreserved auction process is a key contributor to the Company's growth and success. All Ritchie Bros. auctions are unreserved, meaning that there are no minimum prices; each and every item is sold to the highest bidder on the day of the auction. Each consignor is prohibited by contract from bidding on its own consigned items at the auction or in any way artificially affecting the auction result. In addition, the Company adheres to a policy prohibiting it from artificially affecting the auction result by bidding on any items being auctioned. Each bidder has confidence that if he or she makes the highest bid for an item, even if that bid is less than the item's anticipated sale price, the item will be sold to that bidder. Management believes that Ritchie Bros.' reputation for conducting only unreserved auctions is a major reason why bidders are willing to travel to a Ritchie Bros. auction, making the Company's commitment to the unreserved auction method a significant competitive advantage.

Ability to Transcend Local Market Conditions. Ritchie Bros. markets each auction to a global customer base of potential bidders. Because bidders are willing to travel between regions and countries in order to attend Ritchie Bros.' auctions, consignors have confidence that they will receive the world market price for their equipment. Due to the Company's ability to attract a global bidding audience, the market conditions of the local region do not necessarily dictate the results of its auctions. Approximately 25% of Ritchie Bros.' gross auction sales for its fiscal year ended December 31, 1998 represented purchases by bidders from countries outside of the country in which the auction was held. Depending on the location of the auction, buyers from outside the auction area may account for 50% or more of the gross auction sales at a Ritchie Bros. auction. Management believes that this breadth of participants generally enables Ritchie Bros. to transcend local market conditions and to sell equipment at world market prices.

International Scope. Ritchie Bros. has substantial expertise in marketing, assembling and conducting auctions in new international markets. The Company has experience in currency exchange risk management, import and export regulatory issues, local political and economic issues, licensing and other regulatory requirements, and cultural and business traditions in the international markets in which it operates. Ritchie Bros. has conducted auctions in 16 countries and regularly holds auctions in North America, Europe, Asia, Australia and the Middle East.

Proprietary Databases. Ritchie Bros. maintains sophisticated databases containing information on over one million pieces of equipment sold at auctions around the world, detailed information regarding new equipment prices, and updated listings of stolen equipment. These databases and the Company's centrally-controlled appraisal process gives the Company the confidence to offer consignors gross guarantee and outright purchase contracts and enables the Company to manage the risks associated with such contracts. Together with the Company's unique and comprehensive information regarding the flow of equipment coming to

market, these databases give Ritchie Bros. the opportunity to identify market trends and develop marketing initiatives in response to those trends.

The Company also maintains a proprietary customer information database containing information regarding potential bidders. This database contains detailed information on over 250,000 active customers from over 160 countries, including each customer's auction attendance, trade association memberships, buying and travel habits and sales tax and banking information. This database allows the Company to identify potential customers that might be interested in the equipment being sold at any particular auction.

Size and Financial Resources. Ritchie Bros. is the largest company in the highly fragmented industrial equipment auction market. Based upon an industry source that reports sales by companies in the construction equipment segment of the industrial equipment auction market, the reported gross auction sales of Ritchie Bros. in 1998 in that segment exceeded the combined gross auction sales of the other 31 reported auctioneers (excluding Forke) and exceeded four times the gross auction sales of the next largest auctioneer (excluding Forke). Although the Company is not relying on such industry source as an expert, the Company believes that the information provided is reliable. In addition to its strong market position, the Company also has the financial resources to offer gross guarantee and outright purchase contracts, invest in new technologies and expand into new markets. Management believes that these are significant competitive advantages.

Dedicated and Experienced Workforce. Ritchie Bros.' dedicated and motivated employees are an important strength of the Company. Including the 42 former Forke staff members who have joined Ritchie Bros. in connection with the Forke Acquisition, the Company has 420 full-time employees. Of the Company's 188 sales and managerial employees, 55 have been with the Company (or Forke) for over 10 years and an additional 33 have been with the Company (or Forke) for over five years. All employees participate in a performance bonus plan tying their overall compensation to corporate and personal performance, and none are compensated on a commission basis. In addition, key employees have a substantial equity stake in the Company. With an average of 19 years of experience in the business, the 19 senior regional and head-office managers who comprise the Ritchie Bros. Management Advisory Committee offer unique expertise and commitment to the Company.

Growth Strategies

Ritchie Bros. intends to continue its growth primarily by moving into new areas in stages, committing to markets and regions that the Company has already explored, developed and in which the Company expects to be profitable. Management has successfully implemented this conservative approach to growth for 36 years. Some of the key elements of Ritchie Bros.' growth strategy are highlighted below.

Enhance Profitability through the Application of the Company's Growth Model. At the core of Ritchie Bros' internal growth strategy is a five-stage approach for developing permanent auction sites. The first stage is to identify the home markets for buyers who travel to Ritchie Bros. auctions. Second, an auction is held at a temporary "off-site" location in that region with the intention of developing its consignor base in the area. Third, a modest local sales office is established and staffed with one or more territory managers. These full-time Ritchie Bros. representatives are tasked with developing the territory, organizing more off-site auctions and sourcing equipment for other regions. Generally, the fourth stage, the development of a regional auction unit, is initiated only if management believes that a minimum of \$25.0 million annual gross auction sales is achievable at the proposed site. During this stage, land and facilities are leased, additional personnel are deployed and auctions are held every three to six months.

The decision to move to the final stage, the development of a permanent auction site, is usually based on anticipated annual gross auction sales of at least \$40.0 million. At this final stage, Ritchie Bros. purchases land and constructs purpose-built facilities that include an auction theater, administrative offices and other conveniences which are generally not available at off-site and regional facilities. In addition to enhancing the Company's corporate profile in the region and drawing more buyers, permanent sites typically generate higher net income than locations at previous stages of development. At a permanent auction site, territory managers can concentrate on signing up equipment and servicing customers, instead of spending time connecting phone and power lines, arranging for temporary permits and other infrastructure related tasks. By establishing itself

in its local markets and by holding frequent and regularly scheduled auctions at its permanent sites, the Company is able to enhance its profitability.

The Company is currently proceeding with several specific projects, in each case developing a new permanent auction site as a replacement for a regional auction unit. In June 1999, the Company will be opening its new site in The Netherlands. In the fall of 1999, the Company expects to open new sites in Morris (near Chicago), Illinois and Perris (near Los Angeles), California. In the first half of 2000, the Company expects to open a new site in Montreal, Quebec. The Company recently chose to not renew its lease for its regional auction unit in the Philippines and is currently in negotiations for an alternate site in a superior location that will enable Ritchie Bros. to better serve the Asian market.

The Company's strategic focus is on following its model of internally generated growth rather than on pursuing acquisitions; however, it is willing to consider acquisition opportunities provided they fit with the Company's overall growth strategy.

Expand into New Geographic Markets. The Company intends to continue the geographic expansion of its operations by (i) establishing additional auction operations in markets where it has developed a strong long-term presence, such as parts of the United States and Canada; (ii) increasing its presence in newer markets, such as Europe, Asia, Australia and the Middle East, where it has begun to develop significant business; and (iii) entering new markets such as South America and Africa. Regions outside North America represent the majority of the global marketplace for used industrial equipment and management believes that these markets offer significant growth opportunities for Ritchie Bros. The success of the Company's auctions in diverse countries such as Australia, Germany, Hong Kong, Italy, Japan, Mexico, The Netherlands, The Philippines and the United Arab Emirates demonstrates the Company's ability to adapt its operations to, and successfully compete in, new international markets. Management believes that the Company's experience and demonstrated success in developing new geographic markets, its established international base of customers and its reputation as the world's leading industrial equipment auctioneer will provide significant advantages to the Company in its efforts to expand into new territories.

Expand into New Auction Market Segments. Ritchie Bros. will continue to assess possible opportunities to expand its presence in market segments that the Company has not historically emphasized. In particular, management believes that expansion opportunities exist in the agriculture and transportation segments of the used equipment market. Ritchie Bros. intends to leverage its expertise, infrastructure and reputation to generate additional business in these segments. This lateral growth is a natural complement to the Company's traditional focus on construction equipment and will allow Ritchie Bros. to increase revenue from its existing permanent auction sites and regional auction units.

Utilize New Technologies. Ritchie Bros. is committed to using new technologies to augment its live auctions, allowing customers to participate remotely if they are unable to attend the auctions in person. While the Company does not currently envision a migration of its business to a virtual internet-based auction model, it recognizes that technology can be used to enhance customer service. Ritchie Bros. maintains a website at www.rbauktion.com and has been active on the internet since 1996 when it introduced its first website as a marketing tool, allowing the Company to communicate with international customers who otherwise would not have timely access to information regarding upcoming auctions.

The Company's current website was introduced in March 1999 and provides customers with a range of features in multiple languages including on-line auction brochures, on-line catalogs and an equipment search engine, giving customers a wide array of current information about the equipment consigned to Ritchie Bros. auctions. This site also offers internet-based absentee bidding, on-line consignments and the ability to broadcast live auctions. Ritchie Bros. has established a track record for implementing newly developed technologies to augment and improve its auction process and the Company plans to take advantage of additional technologies as they become available.

Operations

Ritchie Bros. auctions are conducted by employees based at the Company's offices in North America, Europe, Asia, Australia and the Middle East. In 1998, approximately 75% of the Company's auctions were held at permanent auction sites or regional auction units. The remaining 25% were "off-site" auctions,

typically held on leased or consignor-owned land. The decision of whether to hold a particular auction at a Ritchie Bros. site or at an off-site location is driven by the nature, amount and location of the equipment to be sold.

The Company holds over 100 auctions a year in locations around the world. A Ritchie Bros. auction typically brings together more than 1,000 buyers and sellers from multiple regions. In 1998, the average Ritchie Bros. auction attracted 1,036 bidders who bid on 973 lots selling for an average of \$10,500 per lot and a total of \$10.2 million per auction. Every Ritchie Bros. auction, regardless of location, is conducted in a consistent manner so that bidders from one country are comfortable attending an auction in another country.

In 1994, the Company developed a specialized auction site design as a model for its permanent sites. To date, this model has been used to construct sites in Fort Worth, Texas; Olympia, Washington; Atlanta, Georgia; Toronto, Ontario; Brisbane, Australia and Rotterdam, The Netherlands. Similar facilities are at various stages of development in Morris (near Chicago), Illinois; Perris (near Los Angeles), California and Montreal, Quebec. The main building on each site is approximately 25,000 square feet including offices, covered theatre style seating for approximately 900 bidders, an auction display area, space for bidder registration, catering and restrooms, and meeting areas for representatives from transportation companies, finance companies and customs brokers.

Management believes that Ritchie Bros.' auctions generally draw a larger number of bidders than other industrial equipment auctions. The larger bidder audience at a Ritchie Bros. auction attracts potential consignors who reason that a large international audience of bidders competing for the same items will result in world market prices being achieved, thereby maximizing the proceeds on the sale of their equipment. Greater volume and selection of consigned equipment at an auction, in turn, attracts more bidders to the auction in a process that is self-reinforcing. The following are some of the key elements of Ritchie Bros.' auction process:

Attracting the Bidders. The Company's customer information database contains comprehensive and detailed information regarding potential bidders that, in the view of management, significantly enhances the Company's ability to effectively market its auction services. This proprietary database contains information on over 250,000 active customers from over 160 countries including each customer's auction attendance, trade association memberships, buying and travel habits and sales tax and banking information. This database allows the Company to identify which customers might be interested in the equipment being sold at a particular auction. Prior to each auction, an average of 50,000 strategically selected customers receive full-color auction brochures for that particular auction. In conjunction with this direct mail campaign, the Company conducts targeted regional and industry-specific advertising and marketing campaigns. In addition, information about all of the consigned equipment is posted on the Ritchie Bros. web site where potential bidders can review the information using customized search engines.

Management believes that assembling a wide selection of equipment displayed in a central location is a critical element of a successful auction of used equipment. The Company's carefully planned layout of the auction yard enables bidders to evaluate and compare the equipment. Easy access to the equipment, repair records and other relevant information allows bidders to determine the fair value of the equipment and bid with confidence.

During 1998, Ritchie Bros. registered over 109,000 bidders, ranging from small contractors and owner-operators to Fortune 100 companies and government agencies. Of these bidders, 32% purchased one or more items. During this period, no one buyer accounted for more than 1% of gross auction sales, and the top 10 represented less than 4% of gross auction sales.

Attracting the Equipment. The Company solicits equipment consignments of any magnitude, ranging from single pieces of equipment consigned by local owner-operators to large equipment fleets offered by multi-national consortiums upon the completion of major construction projects. While the majority of the Company's gross auction sales comes from items that sell for less than \$100,000, the Company also sells items with values exceeding \$500,000. For consignors, Ritchie Bros.' comprehensive services typically begin with an

equipment appraisal that gives the prospective consignor a reliable and credible estimate of the value of the appraised equipment.

Ritchie Bros.' willingness to take consignment of a customer's full equipment fleet (and all ancillary assets, including inventories, parts, tools, attachments and construction materials), rather than only the most desirable items, is another important service offered by Ritchie Bros. to the consignor.

During 1998, Ritchie Bros. sold equipment for over 14,000 consignors. During this period, no one consignor accounted for more than 2% of gross auction sales, and the top 10 represented less than 10% of gross auction sales.

Attractive Contract Options. Ritchie Bros. offers consignors several contract options to meet their individual needs. These can include a straight commission contract whereby the seller receives the gross proceeds on the sale minus an agreed commission rate, as well as alternate arrangements including guaranteed proceeds or an outright purchase of the equipment.

Straight Commission. Under a straight commission consignment, Ritchie Bros. earns a commission based on the auction sale price of the equipment. The commission rate is negotiated on a consignor-by-consignor basis. Straight commission consignments typically represent approximately two-thirds of the Company's gross auction sales (67% in 1998).

Gross Guarantee. Under this type of consignment, Ritchie Bros. guarantees the consignor a minimum level of gross sale proceeds, regardless of the actual results of the auction. When the Company guarantees gross proceeds, it earns a commission on the guaranteed amount and typically participates in a negotiated percentage of any proceeds in excess of the guaranteed amount. If auction proceeds are less than the guaranteed amount, the Company would not earn its full commission or, if sufficiently lower, the Company would incur a loss.

Outright Purchase. Under the outright purchase method, Ritchie Bros. purchases the equipment from the consignor and then auctions the equipment as principal.

Ritchie Bros.' commission structure reflects the degree of risk assumed by the Company with respect to the equipment being sold. In general, lower commissions are charged for straight commission sales than for gross guarantee sales. In the case of outright purchases, pricing takes into account the risk of ownership that is assumed by the Company. Management believes that the Company's ability to offer these alternatives is a significant competitive advantage that helps the Company promote the unreserved auction method of buying and selling used equipment and, in particular, the use of Ritchie Bros. auctions.

Occasionally, the Company advances to consignors a portion of the estimated auction proceeds prior to the auction. The Company generally makes such advances only after taking possession of the equipment and upon receipt of a security interest in the equipment to secure the obligation.

Value-Added Services. Ritchie Bros. provides a wide array of services to make the auction process convenient for buyers and sellers of equipment:

- Ritchie Bros. personnel perform extensive title searches on the equipment consigned and the Company warrants free and clear title on each piece of equipment that it sells.
- Equipment being offered at the auction is available for inspection by prospective buyers or their representatives prior to the auction and service records are made available for inspection. Where possible, prospective buyers are put in touch with the consignors so that bidders can conduct their own investigations before bidding.
- Regular customers are invited to become "Express Bidders" and thereby benefit from expedited check-in procedures. Additional privileges are extended to the Company's largest customers.
- To assist bidders with their prospective purchases, Ritchie Bros. arranges for representatives of finance companies, transportation companies, customs brokerages and other service providers to be present at the auction site.

- Where relevant, translation services are provided and in some cases, the auctioneer's current "ask" number is displayed on large screens (in multiple currencies, if necessary).
- A reception is typically held on the evening before the auction to give customers a chance to network among themselves and meet various Company representatives.
- The Company contracts with selected painters and other trade service providers at each of its auction sites and often provides facilities for on-site cleaning and refurbishment of equipment.
- Ritchie Bros. handles all marketing, the collection and disbursement of auction proceeds and the coordination of payments to lienholders.
- The Company arranges for on-site catering, public telephones and other services.

Marketing and Sales

Since the IPO, Ritchie Bros.' marketing and sales force has grown from 124 regional and territory managers to 157, including additions related to the Forke Acquisition. These representatives are deployed by geographic region around the world. Each territory manager is primarily responsible for the development of customer relationships and solicitation of consignments in the manager's region. Each territory manager is also involved in the appraisal and proposal presentation process. To encourage global teamwork and superior customer service, none of the Company's employees is paid a commission. Territory managers, and all other Ritchie Bros. employees, are compensated by a combination of base salary and performance bonus.

In support of Ritchie Bros. territory managers, the Company follows a dual marketing strategy, promoting both Ritchie Bros. and the auction industry in general, and marketing specific auctions. The dual strategy is designed to attract both consignors and bidders. These advertising and promotional efforts include the use of trade journals and magazines and attendance at numerous trade shows held around the world. The Company also participates in international, national and local trade associations. The auction specific advertising consists of the production and mailing of full color pictorial auction brochures to a targeted selection from the Company's proprietary database of over 250,000 active customers. Trade journal, newspaper, radio and television advertising augment the effort. In addition, the Company's website is updated daily by the addition of major items committed that day to upcoming auctions, and gives customers access to auction brochures, catalogs and other marketing materials.

In addition to regional marketing through its territory managers, the Company markets through its national accounts team to large national customers, typically consisting of major equipment owners (such as rental companies), manufacturers or finance companies who have recurring, large scale equipment disposition requirements in various regions and countries and can therefore benefit from Ritchie Bros.' international network of auction sites.

Building strong name recognition throughout its target markets is an important part of the Company's marketing program. Accordingly, the Company has implemented programs to continually enhance recognition of the Ritchie Bros. corporate name and logo through consistent design elements in its advertising, signage, facilities and employee uniforms.

Competition

Both the international used equipment market and the auction segment of that market are highly fragmented. The Company competes for potential consignors with other auction companies and with equipment dealers (both franchised and independent) and brokers. When competing for potential purchasers of equipment, the Company competes against other auction companies, equipment manufacturers, distributors and dealers that sell new or used equipment, and equipment rental companies.

The Company believes that the principal competitive factors in the industrial equipment market are reputation, customer service, commission pricing and structure, and the ability to deliver the highest net return to the equipment seller.

While Ritchie Bros. is significantly larger than its largest auction competitor, some of the equipment dealers that compete against the Company have significantly greater financial and marketing resources and name recognition than the Company.

Facilities

Ritchie Bros.' head office is located in Vancouver, Canada. The Company also owns an office building in Lincoln, Nebraska which was acquired in connection with the Forke Acquisition and which now serves as the Company's main administrative office for U.S. operations.

With respect to auction sites, the Company attempts to establish sites in industrial areas close to major cities. Although the Company leases some temporary auction sites, the Company prefers to purchase land and construct purpose-built facilities once it has determined that a region can generate sufficient gross auction sales. Permanent sites generally range in size from 20 to 60 acres. The following table lists Ritchie Bros.' existing permanent sites, sites expected to be acquired in connection with the Forke Acquisition and sites under development:

<u>Location</u>	<u>Year Placed in Service by Ritchie Bros.</u>	<u>Size (Acres)</u>	<u>Status</u>
United States			
Atlanta, Georgia	1996	40	
Denver, Colorado	1985	39	
Fort Worth, Texas	1994	60	
Houston, Texas	1993	25	
Minneapolis, Minnesota	1991	29	
Olympia, Washington	1994	26	
Phoenix, Arizona	1987	9	
Tampa, Florida	1995	48	To be replaced by Ocala site being acquired in connection with the Forke Acquisition
Canada			
Edmonton, Alberta	1976	25	
Halifax, Nova Scotia	1997	26	
Prince George, British Columbia	1980	32	
Toronto, Ontario	1998	65	
Vancouver, British Columbia	1979	8	
Other			
Brisbane, Australia	1999	42	First auction: April 20, 1999
Rotterdam, The Netherlands	1999	53	First auction: June 16, 1999
<i>Sites to be Acquired in Connection with the Forke Acquisition</i>			
Albuquerque, New Mexico*		16	
Fort Worth, Texas*		27	Not expected to be used for auctions
Ocala, Florida*		64	Will replace existing site in Tampa
Statesville, North Carolina*		40	
<i>Sites under Development</i>			
Morris, Illinois		60	Expected completion: Q4 1999
Perris, California		66	Expected completion: Q4 1999
Montreal, Quebec		60	Expected completion: Q2 2000

* acquisition is dependent on satisfactory completion of customary due diligence

Certain of these properties are subject to encumbrances granted as security for term loans of the Company.

Following the acquisition of sites in connection with the Forke Acquisition (noted above *) and the opening of a permanent auction site in Rotterdam (which is replacing an existing regional auction unit), the Company expects to be operating 17 permanent auction sites and five regional auction units. The regional auction units, which have been conducting recurring auctions, typically on premises that are leased on a short-term basis, are located in Baltimore, Maryland; Chicago, Illinois; Riverside, California; Montreal, Quebec; and Toluca, Mexico.

Employees

The Company had 369 full-time employees at December 31, 1998. At May 20, 1999, the Company had 420 full-time employees, including 42 employees who have joined the Company in connection with the Forke Acquisition. The Company also employs approximately 300 employees on a recurring temporary basis in connection with its auctions. The Company expects to increase its customer service and auction yard employees as it expands its operations. The Company is not subject to any collective bargaining agreements and believes that its relationships with its employees are good.

Governmental and Environmental Regulations

In the countries in which it operates, the Company is subject to a variety of federal, provincial, state and local laws, rules and regulations relating to, among other things, the auction business, imports and exports of equipment, worker safety and the use, storage, discharge and disposal of environmentally sensitive materials. In addition, the Company is subject to various local zoning requirements with regard to the location of its auction sites, which vary from location to location.

Under certain of the laws regulating the use, storage, discharge and disposal of environmentally sensitive materials, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in, or emanating from, such property, as well as related costs of investigation and property damage. Such laws often impose liability without regard to whether the owner or lessee knew of, or was responsible for, the presence of such hazardous or toxic substances. In connection with its site acquisitions, including the properties related to the Forke Acquisition, the Company obtains Phase I environmental assessment reports prepared by independent environmental consultants. A Phase I assessment consists of a site visit, historical record review, interviews and reports, with the purpose of identifying potential environmental conditions associated with the subject property. There can be no assurance, however, that acquired or leased sites have been operated in compliance with environmental laws and regulations or that future uses or conditions will not result in the imposition of environmental liability upon the Company or expose the Company to third-party actions such as tort suits.

The Company believes that it is in compliance in all material respects with all laws, rules, regulations and requirements that affect its business, and that compliance with such laws, rules, regulations and requirements do not impose a material impediment on the Company's ability to conduct its business.

Legal Proceedings

From time to time the Company has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of its business. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. The Company is not aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the Company or on its financial condition or results of operation.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (included elsewhere in this Annual Information Form) and the Company’s audited financial statements for the year ended December 31, 1998. Effective December 31, 1997, the Company changed its fiscal year end from April 30 to December 31. All dollar amounts in the table are in thousands, except per share data.

Five Year Summary

	Year Ended December 31,		Eight Months Ended December 31,	Fiscal Year Ended April 30,			
	1998	1997(1)	1997(1)	1997(1)	1996(1)	1995(1)	1994(1)
	(unaudited)						
Income Statement Data:							
Auction revenues	\$ 94,899	\$ 85,009	\$ 60,034	\$ 72,186	\$ 65,306	\$ 51,326	\$ 50,066
Direct expenses	(16,010)	(17,351)	(13,041)	(13,908)	(13,138)	(12,979)	(11,925)
	78,889	67,658	46,993	58,278	52,168	38,347	38,141
Depreciation	(2,752)	(2,548)	(1,540)	(2,014)	(1,820)	(1,708)	(1,327)
General and administrative expense	(39,315)	(37,724)	(27,414)	(31,099)	(26,848)	(24,628)	(20,801)
Employee equity participation expense(2)	—	(10,346)	(10,346)	—	—	—	—
Income from operations	36,822	17,040	7,693	25,165	23,500	12,011	16,013
Interest expense	(1,569)	(2,034)	(1,380)	(1,081)	(1,104)	(1,274)	(611)
Other income	3,251	754	576	917	1,179	677	1,336
Income before income taxes	38,504	15,760	6,889	25,001	23,575	11,414	16,738
Income taxes	(13,670)	(7,438)	(4,491)	(5,992)	(4,428)	(2,975)	(2,456)
Net income	<u>\$ 24,834</u>	<u>\$ 8,322</u>	<u>\$ 2,398</u>	<u>\$ 19,009</u>	<u>\$ 19,147</u>	<u>\$ 8,439</u>	<u>\$ 14,282</u>
Net income per share							
— basic	\$ 1.56	\$ 0.65	\$ 0.19	\$ 1.49	\$ 1.51	\$ 0.66	\$ 1.12
— diluted	1.54	0.64	0.18	1.49	1.51	0.66	1.12
US GAAP — Net income(3)	<u>\$ 24,814</u>	<u>\$ 6,969</u>	<u>\$ 1,045</u>	<u>\$ 19,009</u>	<u>\$ 19,147</u>	<u>\$ 8,439</u>	<u>\$ 14,282</u>
US GAAP — Net income per share							
— basic	\$ 1.56	\$ 0.54	\$ 0.08	\$ 1.49	\$ 1.51	\$ 0.66	\$ 1.12
— diluted	1.54	0.54	0.08	1.49	1.51	0.66	1.12
Weighted average number of shares outstanding(4)							
— basic	15,918,214	12,877,777	12,958,753	12,715,667	12,715,667	12,715,667	12,715,667
— diluted	16,116,242	12,933,701	13,042,069	12,715,667	12,715,667	12,715,667	12,715,667
Balance Sheet Data (end of period):							
Working capital (including cash)	\$ 49,149	\$ 3,322	\$ 3,322	\$ 39,707	\$ 33,132	\$ 21,822	\$ 23,900
Total assets	152,593	70,460	70,460	142,858	150,969	98,621	87,802
Long term debt	8,768	4,623	4,623	5,755	6,547	6,985	7,282
Total shareholders' equity	104,172	25,706	25,706	59,325	48,801	37,718	35,449
Selected Operating Data:							
Gross auction sales (5)	\$1,087,800	\$ 946,415	\$ 681,425	\$ 792,865	\$ 752,735	\$ 634,058	\$ 567,506
Auction revenues as percentage of gross auction sales	8.72%	8.98%	8.81%	9.10%	8.68%	8.09%	8.82%
Number of consignors	14,432	13,636	9,985	12,088	10,744	10,460	8,650
Number of buyers	34,613	33,340	23,917	30,630	27,837	27,401	25,812
Number of permanent auction sites (end of period)	13	13	13	13	12	11	10

- (1) For all pre-1998 periods presented, the majority of the Company's business operations was conducted by predecessor entities that were partnerships. Consequently, many financial statement items for or in these prior periods are not comparable with post-1997 results. In particular, the pre-1998 balances of the following line items are not meaningful for comparative purposes: general and administrative expense, income from operations, income before income taxes, income taxes, net income and net income per share.
- (2) Non-recurring employee equity participation expense for the periods ended December 31, 1997 reflects grants to employees of options to purchase 196,333 Common Shares with an exercise price of \$0.10 per share, and issuances to other employees of 497,999 Common Shares at the price of \$0.10 per share. These option grants and Common Share issuances were made prior to the IPO.
- (3) Net income under US GAAP for the periods ended December 31, 1997 reflects restructuring expenses and taxes of \$1.4 million incurred in connection with a corporate reorganization (these expenses are reflected under Canadian GAAP as reductions to shareholders' equity in the Company's consolidated financial statements).
- (4) Weighted average number of shares outstanding for all periods has been calculated after giving retroactive effect to the 12,715,667 Common Shares issued in connection with a corporate reorganization that was completed in 1997 as if those Common Shares had been issued at the beginning of the earliest period presented.
- (5) Gross auction sales represent the aggregate selling prices of all items sold at Ritchie Bros.' auctions. Gross auction sales are key to understanding the financial results of the Company, since the amount of revenues and, to a lesser extent, certain expenses, are dependent upon them.

Segmented Information

The Company's principal business activity is the sale of consignment and self-owned equipment at auctions. This business represents a single operating segment. In 1998, auction revenues derived from auction sales in the United States represented 52.4% of the Company's total auction revenues.

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

	<u>United States</u>	<u>Canada</u>	<u>Other</u>	<u>Combined</u>
	(dollar amounts in thousands)			
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

Quarterly Summary (unaudited)

(dollar amounts in thousands, except per share data)

<u>Period</u>	<u>Gross Auction Sales</u>	<u>Auction Revenue</u>	<u>Net Income</u>	<u>Net Income per Share</u>	
				<u>Basic</u>	<u>Diluted</u>
1998					
1st quarter	\$ 227,637	\$21,229	\$ 3,377	\$0.24	\$0.24
2nd quarter	339,219	29,188	8,492	0.51	0.51
3rd quarter(1)	183,633	13,869	2,004	0.12	0.12
4th quarter	<u>337,311</u>	<u>30,613</u>	<u>10,961</u>	<u>0.66</u>	<u>0.65</u>
	<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	<u>306,345</u>	<u>25,145</u>			
	<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 Common Shares outstanding changed significantly in March 1998 when the Company completed its IPO.
- (3) Represents calendar quarters in the unaudited twelve-month period ended December 31, 1997. Net income and net income per share amounts for the twelve-month period ended December 31, 1997 are not meaningful for comparative purposes (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations”).

DIVIDEND POLICY

The declaration and payment of dividends on the Common Shares will be subject to the discretion of the Board of Directors and the retention of sufficient cash to fund the Company’s growth initiatives. Because Ritchie Bros. is a holding company with no material assets other than the shares of its subsidiaries, its ability to pay dividends on the Common Shares is dependent on the income and cash flow of its subsidiaries. No financing agreements to which the subsidiaries of Ritchie Bros. are party currently restrict those subsidiaries from paying dividends to Ritchie Bros. The Company has not declared or paid any dividends on the Common Shares since its IPO.

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

The following is substantially as was included in the Company's 1998 Annual Report which was published and distributed to the Company's shareholders on March 31, 1999. Certain statements made in this section relating to the Forke Acquisition have been updated from statements included in the Annual Report and certain other statements are superceded by statements contained elsewhere in this Annual Information Form.

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 affect the comparability of general and administrative expense between 1997 and 1998.

On April 1, 1999, Ritchie Bros. acquired the auction business of Forke, Inc. ("Forke"), a major auctioneer of industrial equipment headquartered in Lincoln, Nebraska. Whereas Ritchie Bros. operates through over 50 locations throughout North America, Europe, Asia, Australia and the Middle East, Forke operated primarily in the United States. Forke had been conducting industrial auctions since 1921 and pioneered the industrial auction business in the United States. In related transactions, the Company has acquired an office building in Nebraska and has entered into agreements to acquire four permanent auction sites in Florida, North Carolina, Texas and New Mexico, subject to satisfactory completion of customary due diligence. The Company did not acquire Forke's equipment finance business. To acquire Forke's auction business, the Company paid cash of \$25 million, issued 100,000 common shares of the Company, and granted warrants to acquire 400,000 common shares of the Company at an exercise price of \$26.69 per share. To acquire the four permanent auction sites and the office building referred to above, and certain other tangible assets, the Company has agreed to pay \$12.4 million. The Company is financing these transactions substantially with a term loan facility. The Company expects that the Forke transaction will give rise to incremental operating costs commencing April 1, 1999. Incremental gross auction sales and auction revenues are not expected to commence until July 1999. These incremental amounts are expected to be material, but the actual amounts are unknown as they will be dependent, in part, on the productivity of the new employees.

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. 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 Information Form 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 Information Form. 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.

MARKET FOR SECURITIES

The Common Shares of the Company are listed and traded on the New York Stock Exchange (the "NYSE") under the ticker symbol "RBA". The NYSE is the principal market for the Common Shares.

DIRECTORS AND OFFICERS

The names and municipalities of residence of the directors and officers of the Company and their principal occupations are set forth below.

Directors

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>
DAVID E. RITCHIE Leduc, Alberta	Chief Executive Officer of the Company	1997
C. RUSSELL CMOLIK(2) Surrey, British Columbia	President and Chief Operating Officer of the Company	1997
PETER J. BLAKE(1) Vancouver, British Columbia	Vice President – Finance and Chief Financial Officer of the Company	1997
CHARLES E. CROFT(1)(2) Salt Spring, British Columbia	President and Director of Falcon Pacific Financial Corp. and its subsidiaries	1998
G. EDWARD MOUL(1)(2) West Vancouver, British Columbia	Director and officer of The McEmcy Company of Canada Ltd., Peace Portal Properties Ltd. and certain other private real estate holding companies	1998

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

The Company does not have an Executive Committee and is required to have an Audit Committee. Each director will serve until the next annual general meeting or until his successor is elected or appointed.

Officers

<u>Name and Municipality of Residence</u>	<u>Position with the Company</u>
DAVID E. RITCHIE Leduc, Alberta	Chief Executive Officer
C. RUSSELL CMOLIK Surrey, British Columbia	President and Chief Operating Officer
PETER J. BLAKE Vancouver, British Columbia	Vice President – Finance and Chief Financial Officer
JOHN T. WILD Surrey, British Columbia	Vice President – Administration
ROBERT J. CARSWELL Langley, British Columbia	Vice President/Senior Valuations Analyst

<u>Name and Municipality of Residence</u>	<u>Position with the Company</u>
FRANK S. MCFADDEN Surrey, British Columbia	Vice President/Senior Valuations Analyst
DONALD F. CHALMERS Sherwood Park, Alberta	Vice President – Western Canada and Prairie Divisions
MARVIN R. CHANTLER Loretto, Ontario	Vice President – Eastern Canada and Great Lakes Divisions
SYLVAIN M. TOUCHETTE Carignan, Quebec	Vice President – Quebec Division
ROGER W. RUMMEL Phoenix, Arizona	Vice President – Northwest, Southwest and Mexico Divisions
KENNETH D. ASBURY Arvada, Colorado	Vice President – Central and North Central Divisions
EDWARD H. BANSER Fort Worth, Texas	Vice President – South Central Division
MICHAEL J. RITCHIE Annapolis, Maryland	Vice President – Northeast Division
MARTIN E. POPE Newnan, Georgia	Vice President – Southeast Division
ROBERT K. MACKAY Delta, British Columbia	Vice President – Asia Pacific Division
ROBERT K. WHITSIT Lincoln, Nebraska	Vice President – US Operations
C. DENIS PREVOST Surrey, British Columbia	Vice President – National Accounts
ROBERT L. BRAWLEY Aurora, Colorado	Vice President
RANDALL J. WALL Braaschaat, Belgium	Managing Director – Europe and Middle East Divisions
GARY CAUFIELD Coquitlam, British Columbia	Senior Manager – Special Projects
HELEN MENGES Vancouver, British Columbia	Manager – Search Department
ROBERT S. ARMSTRONG New Westminster, British Columbia	Manager – Finance and Corporate Relations, Corporate Secretary
ROBERT MCLEOD Vancouver, British Columbia	Manager – Finance and Administration, US Operations
DEBORA JOHNSON Surrey, British Columbia	Controller – Canadian Operations
ERROL OLSEN North Vancouver, British Columbia	Controller – US Operations

As of April 30, 1999, the directors and senior officers (the senior officers are the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Corporate Secretary) of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 42.8% of the outstanding Common Shares of the Company.

ADDITIONAL INFORMATION

The Company shall provide to any person, upon request to the Corporate Secretary of the Company:

- (a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities;
 - (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
 - (ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Company subsequent to the financial statements for the Company's most recently completed financial year;
 - (iii) one copy of the Information Circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors; and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any of the documents referred to in (a) (i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information, including directors' and officers' remuneration and indebtedness to the Company, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's Information Circular for its most recent annual meeting of shareholders that involved the election of directors, and additional financial information is provided in the Company's comparative financial statements for its most recently completed financial year.

Copies of these documents may be obtained upon request from the Corporate Secretary of the Company, 9200 Bridgeport Road, Richmond, British Columbia, V6X 1S1 (telephone number: (604) 273-7564).

ANNEX B

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997 (UNAUDITED),
THE EIGHT-MONTH PERIOD ENDED DECEMBER 31, 1997
AND THE YEAR ENDED APRIL 30, 1997**

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.

(signed) KPMG LLP
Chartered Accountants

Vancouver, Canada
February 26, 1999

REVIEW ENGAGEMENT REPORT

To the Board of Directors
Ritchie Bros. Auctioneers Incorporated

We have reviewed the consolidated statements of income and cash flows of Ritchie Bros. Auctioneers Incorporated for the year ended December 31, 1997. Our review was made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with generally accepted accounting principles.

(signed) KPMG LLP
Chartered Accountants

Vancouver, Canada
February 26, 1999

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Income (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
Auction revenues	\$ 94,899	\$ 85,009	\$ 60,034	\$ 72,186
Direct expenses	<u>(16,010)</u>	<u>(17,351)</u>	<u>(13,041)</u>	<u>(13,908)</u>
	78,889	67,658	46,993	58,278
Expenses:				
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))	<u>—</u>	<u>10,346</u>	<u>10,346</u>	<u>—</u>
	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	<u>3,251</u>	<u>754</u>	<u>576</u>	<u>917</u>
	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	<u>(292)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	13,670	7,438	4,491	5,992
Net income	<u>\$ 24,834</u>	<u>\$ 8,322</u>	<u>\$ 2,398</u>	<u>\$ 19,009</u>
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	<u>15,918,214</u>	<u>12,877,777</u>	<u>12,958,753</u>	<u>12,715,667</u>

Approved on behalf of the Board of Directors

(signed) C. RUSSELL CMOLIK
C. Russell Cmolik
Director

(signed) PETER J. BLAKE
Peter J. Blake
Director

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Balance Sheets (Expressed in thousands of United States Dollars)

	December 31, 1998	December 31, 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	—
	<u>\$152,593</u>	<u>\$70,460</u>
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)		
	<u>\$152,593</u>	<u>\$70,460</u>

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

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

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Foreign Currency Translation Adjustment</u>	<u>Total Shareholders' Equity</u>
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.....	<u>3,365</u>	<u>58,088</u>	<u>(2,128)</u>	<u>59,325</u>
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	<u>10,866</u>	<u>16,958</u>	<u>(2,118)</u>	<u>25,706</u>
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	<u>\$64,728</u>	<u>\$41,772</u>	<u>\$(2,328)</u>	<u>\$104,172</u>

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

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)
	<u>25,490</u>	<u>38,311</u>	<u>5,591</u>	<u>11,039</u>
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)	—
	<u>58,050</u>	<u>(49,614)</u>	<u>(53,248)</u>	<u>(5,049)</u>
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 . . .	<u>27,149</u>	<u>43,572</u>	<u>77,980</u>	<u>77,161</u>
Cash and cash equivalents, end of period	<u>\$73,620</u>	<u>\$ 27,149</u>	<u>\$ 27,149</u>	<u>\$77,980</u>
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.

RITCHIE BROS. AUCTIONEERS INCORPORATED

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.

RITCHIE BROS. AUCTIONEERS INCORPORATED

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

RITCHIE BROS. AUCTIONEERS INCORPORATED

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)

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.

(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.

RITCHIE BROS. AUCTIONEERS INCORPORATED

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)

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.

3. Capital Assets

Capital assets at December 31, 1998 are as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
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
	<u>\$69,586</u>	<u>\$8,262</u>	<u>\$61,324</u>

Capital assets at December 31, 1997 are as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
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
	<u>\$33,677</u>	<u>\$6,670</u>	<u>\$27,007</u>

ITCHIE BROS. AUCTIONEERS INCORPORATED

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)

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	<u>5,062</u>	<u>—</u>
	9,561	5,353
Less current portion	<u>(793)</u>	<u>(730)</u>
	<u><u>\$8,768</u></u>	<u><u>\$4,623</u></u>

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	<u>4,436</u>
	<u><u>\$9,561</u></u>

ITCHIE BROS. AUCTIONEERS INCORPORATED

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	<u>12,715,667</u>
Balance December 31, 1997	13,213,666
Number of common shares issued during the year ended December 31, 1998, pursuant to an equity offering	
	<u>3,335,000</u>
Issued and outstanding, December 31, 1998	<u><u>16,548,666</u></u>

(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:

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

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

ITCHIE BROS. AUCTIONEERS INCORPORATED

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 — (Continued)

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.

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:

	<u>United States</u>	<u>Canada</u>	<u>Other</u>	<u>Combined</u>
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

RITCHIE BROS. AUCTIONEERS INCORPORATED

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

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	<u>\$13,670</u>	<u>\$ 7,438</u>	<u>\$4,491</u>	<u>\$ 5,992</u>

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	<u>\$13,670</u>	<u>\$9,004</u>	<u>\$5,297</u>	<u>\$9,891</u>

Future income taxes

	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>

ITCHIE BROS. AUCTIONEERS INCORPORATED

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)

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

RITCHIE BROS. AUCTIONEERS INCORPORATED

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.

ANNEX C

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT'S
DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 1999**

REVIEW ENGAGEMENT REPORT

To the Board of Directors
Ritchie Bros. Auctioneers Incorporated

We have reviewed the consolidated balance sheet of Ritchie Bros. Auctioneers Incorporated as at March 31, 1999 and the consolidated statements of income and cash flows for the three months ended March 31, 1999 and 1998 and the consolidated statement of shareholders' equity for the three months ended March 31, 1999. Our reviews were made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our reviews, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with generally accepted accounting principles.

(signed) KPMG LLP
Chartered Accountants

Vancouver, Canada
May 31, 1999

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Income (Expressed in thousands of United States Dollars except per share amounts) (unaudited)

	Three months ended March 31,	
	1999	1998
Auction revenues	\$ 18,013	\$ 21,229
Direct expenses	2,752	3,567
	15,261	17,662
Expenses:		
Depreciation	734	600
General and administrative	11,902	11,732
	12,636	12,332
Income from operations	2,625	5,330
Other income (expenses):		
Interest expense	(243)	(741)
Other	267	323
	(24)	(418)
Income before income taxes	2,649	4,912
Income taxes:		
Current	851	1,535
Future (note 3)	166	—
	1,017	1,535
Net income	<u>\$ 1,632</u>	<u>\$ 3,377</u>
Net income per share:		
Basic	<u>\$ 0.10</u>	<u>\$ 0.24</u>
Diluted	<u>\$ 0.10</u>	<u>\$ 0.24</u>
Weighted average number of shares outstanding	16,572,152	13,991,833
Diluted weighted average number of shares outstanding	<u>16,783,199</u>	<u>14,188,166</u>

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Balance Sheets (Expressed in thousands of United States Dollars)

	<u>March 31</u> <u>1999</u>	<u>December 31</u> <u>1998</u>
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$108,506	\$ 73,620
Accounts receivable	40,366	6,771
Inventory	9,901	2,355
Advances against auction contracts	10,398	5,345
Prepaid expenses and deposits	<u>1,462</u>	<u>711</u>
	170,633	88,802
Capital assets (note 2)	65,881	61,324
Future income taxes (note 3)	<u>2,301</u>	<u>2,467</u>
	<u>\$238,815</u>	<u>\$152,593</u>
Liabilities and Equity		
Current liabilities:		
Auction proceeds payable	\$106,099	\$ 14,030
Accounts payable and accrued liabilities	13,602	21,751
Current bank loans	840	793
Income taxes payable	<u>899</u>	<u>3,079</u>
	121,440	39,653
Bank term loans	<u>10,648</u>	<u>8,768</u>
	132,088	48,421
Shareholders' equity		
Share capital (note 4)	66,073	64,728
Retained earnings	43,404	41,772
Foreign currency translation adjustment	<u>(2,750)</u>	<u>(2,328)</u>
	<u>106,727</u>	<u>104,172</u>
	<u>\$238,815</u>	<u>\$152,593</u>
Subsequent event (note 6)		

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statement of Shareholders' Equity
(Expressed in thousands of United States Dollars)
(unaudited)

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Foreign Currency Translation Adjustment</u>	<u>Total Shareholders' Equity</u>
Balance, December 31, 1998	\$64,728	\$41,772	\$(2,328)	\$104,172
Common shares issued	1,345	—	—	1,345
Net income	—	1,632	—	1,632
Foreign currency translation adjustment	—	—	(422)	(422)
Balance, March 31, 1999	<u>\$66,073</u>	<u>\$43,404</u>	<u>\$(2,750)</u>	<u>\$106,727</u>

See accompanying notes to consolidated financial statements.

ITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Cash Flows
(Expressed in thousands of United States Dollars)
(unaudited)

	Three months ended March 31,	
	1999	1998
Cash provided by (used in)		
Operations:		
Net income	\$ 1,632	\$ 3,377
Items not involving the use of cash		
Depreciation	734	600
Future income taxes	166	—
Changes in non-cash working capital:		
Accounts receivable	(33,595)	(51,347)
Inventory	(7,546)	299
Advances against auction contracts	(5,053)	(2,989)
Prepaid expenses and deposits	(751)	(250)
Auctions proceeds payable	92,069	63,624
Accounts payable and accrued liabilities	(8,149)	8,643
Income taxes payable	(2,180)	(3,253)
Foreign currency translation adjustment	(422)	(53)
	<u>36,905</u>	<u>18,651</u>
Financing:		
Issuance of share capital, net of issue costs	1,345	51,911
Bank loans	<u>1,927</u>	<u>(241)</u>
	<u>3,272</u>	<u>51,670</u>
Investments:		
Capital asset additions, net	<u>(5,291)</u>	<u>(8,592)</u>
Increase in cash and cash equivalents	34,886	61,729
Cash and cash equivalents, beginning of period	<u>73,620</u>	<u>27,149</u>
Cash and cash equivalents, end of period	<u>\$108,506</u>	<u>\$88,878</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 248	\$ 735
Income taxes paid	\$ 2,161	\$ 4,415

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)** **March 31, 1999**

(Information as at March 31, 1999 and for the three-month periods ended March 31, 1999 and 1998 is unaudited)

1. Significant accounting policies:

(a) Basis of presentation:

These unaudited 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").

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Except as disclosed in note 5, these consolidated financial statements comply, in all material respects, with generally accepted accounting principles in the United States.

2. Capital assets

Capital assets at December 31, 1998 are as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
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
	<u>\$69,586</u>	<u>\$8,262</u>	<u>\$61,324</u>

Capital assets at March 31, 1999 are as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Land and improvements	\$38,218	\$1,013	\$37,205
Buildings	23,581	2,919	20,662
Automotive equipment	5,631	1,768	3,863
Computer equipment	2,185	817	1,368
Yard equipment	2,543	1,147	1,396
Office equipment	2,267	1,084	1,183
Leasehold improvements	266	62	204
	<u>\$74,691</u>	<u>\$8,810</u>	<u>\$65,881</u>

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements — (Continued) **(Tabular dollar amounts expressed in thousands of United States Dollars)**

March 31, 1999

(Information as at March 31, 1999 and for the three-month periods
ended March 31, 1999 and 1998 is unaudited)

3. Future income taxes

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.

4. Share capital:

Shares issued:

In March 1998, the Company issued 3,335,000 common shares in connection with its initial public offering. Net proceeds raised from the offering, after deducting underwriting commissions and other direct costs, and after adding the future income tax benefit related to the amortization of underwriting costs, were \$53.9 million.

In February 1999, the Company issued 50,000 common shares to an employee. The transaction was recorded at a share price of \$26.875 per share, the market value of the common shares on the issuance date.

Options granted:

In February 1999, the Company granted to directors and employees 17,000 options to acquire common shares. Each option has an exercise price of \$26.875, the market value of the common shares on the grant date, and expires on February 21, 2009.

Options exercised and cancelled:

During the three months ended March 31, 1999, 9,468 options were exercised at \$0.10 each and 1,500 options, having an exercise price of \$0.10 each, were cancelled. These \$0.10 options had been granted to employees of the Company prior to the Company's initial public offering. At March 31, 1999, 160,032 \$0.10 options remain outstanding.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements — (Continued) **(Tabular dollar amounts expressed in thousands of United States Dollars)** **March 31, 1999**

(Information as at March 31, 1999 and for the three-month periods ended March 31, 1999 and 1998 is unaudited)

5. United States generally accepted accounting principles:

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial information which differ, in certain respects, from accounting practices generally accepted in the United States and from requirements promulgated by the United States Securities and Exchange Commission.

Material differences to the consolidated financial statements and related notes of the Company are as follows:

Consolidated statements of net income per share and comprehensive net income

	Three months ended March 31	
	1999	1998
Net income per share in accordance with United States GAAP		
Basic	\$ 0.10	\$ 0.24
Diluted	\$ 0.10	\$ 0.24
Net income	\$1,632	\$3,377
Other comprehensive income (loss) adjustments		
Foreign currency translation	(422)	(53)
Comprehensive net income in accordance with United States GAAP	<u>\$1,210</u>	<u>\$3,324</u>

6. Subsequent event:

On April 1, 1999, the Company acquired the auction business of Forke, Inc. ("Forke"), a major auctioneer of industrial equipment headquartered in Lincoln, Nebraska. In related transactions, the Company has entered into agreements to acquire four permanent auction sites in Florida, North Carolina, Texas, and New Mexico, and an office building in Nebraska, subject to satisfactory completion of customary due diligence. The Company did not acquire Forke's equipment finance business. To acquire Forke's auction business, the Company paid cash of \$25 million, issued 100,000 common shares of the Company, and granted warrants to acquire 400,000 common shares of the Company for an exercise price of \$26.69 per share. To acquire the four permanent auction sites and the office building referred to above, and certain other tangible assets, the Company has agreed to pay \$12.4 million. The Company is financing these transactions substantially with a term loan facility.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three months ended March 31, 1999**

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 three months ended March 31, 1999 compared to the three months ended March 31, 1998. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included herein and included in the Company's 1998 Annual Report. The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in Canada which, except as set out in note 5 to the consolidated financial statements, result in materially consistent financial position and results of operations to that which would be reported under generally accepted accounting principles in the United States. Amounts discussed below are based on consolidated financial statements prepared in accordance with Canadian accounting principles.

Ritchie Bros. is the world's leading auctioneer of industrial equipment. At March 31, 1999, the Company operated from over 50 locations, including 13 permanent auction sites and 7 regional auction units, 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.

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

In March 1999, the Company closed its office in Subic Bay, the Philippines due to significantly diminished activity at that location. The Company is negotiating to relocate its Asian regional auction unit to a more prominent Asian location.

On April 1, 1999, Ritchie Bros. acquired the auction business of Forke, Inc. ("Forke"), a major auctioneer of industrial equipment headquartered in Lincoln, Nebraska. Whereas Ritchie Bros. operates through over 50 locations throughout North America, Europe, Asia, Australia and the Middle East, Forke operated primarily in the United States. Forke had been conducting industrial auctions since 1921 and pioneered the industrial auction business in the United States. In related transactions, the Company has entered into agreements to acquire four permanent auction sites in Florida, North Carolina, Texas, and New Mexico, and an office building in Nebraska, subject to satisfactory completion of customary due diligence. The Company did not acquire Forke's equipment finance business. To acquire Forke's auction business, the Company paid cash of \$25 million, issued 100,000 common shares of the Company, and granted warrants to acquire 400,000 common shares of the Company at an exercise price of \$26.69 per share. To acquire the four permanent auction sites and the office building referred to above, and certain other tangible assets, the Company has agreed to pay \$12.4 million. The Company is financing these transactions substantially with a term loan facility. The Company expects that the Forke transaction will give rise to incremental operating costs commencing April 1, 1999. Incremental gross auction sales and auction revenues are not expected to commence until July 1999. These incremental amounts are expected to be material, but the actual amounts are unknown as they will be dependent, in part, on the productivity of the new employees.

On April 20, 1999, the Company opened its newest permanent auction site on the Gold Coast of Australia, near Brisbane, thereby upgrading its existing regional auction unit to a permanent auction site.

In May 1999, the Company purchased 60 acres of land in Montreal, Quebec with the intention of constructing a permanent auction site to serve the Montreal market. The new site is expected to replace the Company's existing Montreal-based regional auction unit in the first half of 2000, once the new auction facilities have been constructed.

Results of Operations

Auction Revenues

Auction revenues of \$18.0 million for the three months ended March 31, 1999 decreased by \$3.2 million, or 15.1%, from the three months ended March 31, 1998 due to decreased gross auction sales, and a lower auction revenue rate earned by the Company on gross auction sales. Gross auction sales of \$201.8 million for the three months ended March 31, 1999 decreased by \$25.9 million, or 11.4%, from \$227.6 million in the 1998 period, primarily as a result of decreased gross auction sales in Europe and the effect on first quarter 1998 results of a large auction in the Middle East (a \$33 million auction was held in Dubai during the first quarter of 1998; the Company's first Dubai auction in 1999 was comparable in size — \$31 million — but was not held until the second quarter). Results for 1999 included significant gross auction sales for certain auctions held by the Company in the Port of Moerdijk, the Netherlands; Fort Worth, Texas; and Las Vegas, Nevada. Auction revenues as a percentage of gross auction sales have averaged 8.80% on a long-term basis. In the first quarter of 1999, the auction revenue rate of 8.93% was marginally higher than the long-term average and lower than the unusually high 9.33% rate experienced in the comparable 1998 period. 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 of \$2.8 million for the three months ended March 31, 1999 decreased by \$0.8 million compared to the comparable period in 1998. As a percentage of gross auction sales, direct expenses were 1.36% for the three months ending March 31, 1999, lower than the 1.57% experienced during the 1998 period. This decrease

was primarily a result of fewer but larger auctions being held in the 1999 period as compared to the 1998 period and the related expense efficiencies arising from conducting large auctions.

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 three-month period ending March 31, 1999, depreciation increased marginally from the 1998 period 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, including those permanent sites acquired in the Forke transaction.

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 three months ended March 31, 1999, the Company incurred G&A of \$11.9 million, as compared to \$11.7 million for the comparable three month period in 1998. G&A in the 1998 period was higher than the average quarterly G&A of \$9.8 million in 1998 because of unusually high performance bonus accruals during the quarter. During the first quarter of 1999, the Company incurred a special compensation expense of approximately \$1.3 million related to a share issuance to an employee. The Company does not intend to make similar share issuances in the future. Management anticipates that G&A will increase in the future due to the personnel hired as a result of the Forke transaction, and an increasing level of administrative infrastructure to support expansion of the Company's operations. See "— Overview."

Income from Operations

Income from operations was \$2.6 million in the three months ended March 31, 1999 as compared to \$5.3 million in the comparable 1998 period. The primary reason for the decrease was the reduced gross auction sales in the 1999 period compared to the 1998 period. During the quarter ended June 30, 1999, the Company expects to incur incremental expenses relating to the Forke acquisition; however, the Company does not expect to incur any related incremental revenues during the period. As a result, income from operations will be negatively affected.

Interest Expense

Interest expense includes interest and bank charges paid on term bank debt. Interest expense for the three months ended March 31, 1999 decreased to \$0.2 million, compared to \$0.7 million incurred in the three months ended March 31, 1998. The decrease resulted from lower balances on the Company's operating credit facilities during 1999 versus the comparable 1998 period, Management is financing the Forke transaction with a term bank loan (\$25 million was drawn down on April 1, 1999), and plans to partially finance the acquisition of additional permanent auction sites by incurring debt, which will result in an increase in interest expense in the future. See "— Overview" and "Liquidity and Capital Resources."

Other Income

Other income arises from equipment appraisals performed by the Company, and other miscellaneous sources. Other income for the three months ended March 31, 1999 of \$0.3 million was unchanged from the comparable 1998 period.

Income Taxes

Income taxes of \$1.0 million for the three months ended March 31, 1999 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 the 1999 period of 38.4% is higher than the rate the Company would normally expect for subsequent periods and higher than the effective tax rate in the comparable 1998 period of 31.3%. During the

three months ended March 31, 1999, the Company earned a larger portion of income in higher tax rate jurisdictions than during the comparable period in 1998.

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 both March 31, 1999 and December 31, 1998, working capital, including cash, was \$49.2 million.

Net capital expenditures by the Company during the three months ended March 31, 1999 were \$5.3 million as compared to \$8.6 million for the three months ended March 31, 1998. In the 1999 period, the Company continued to incur 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, including certain sites being acquired in connection with the Forke transaction.

The Company has established credit facilities with financial institutions in the United States, Canada, Europe, and Australia. The Company presently has access to credit lines for operations exceeding \$95.0 million and to credit lines for funding property acquisitions exceeding \$35.0 million. At March 31, 1999, the Company had no bank debt relating to operations, and bank debt related to property acquisitions totalled \$14.8 million. In addition, on March 26, 1999, the Company entered into a credit agreement to access up to \$35.0 million through a new term loan facility to fund the acquisition of the auction business and certain assets of Forke. The Company intends to finance the total Forke related borrowings of approximately \$35 million over a five year term, with repayments of approximately \$5 million per year and a balloon payment of approximately \$15 million in 2004. The all-in interest rate on the facility is currently Libor plus 0.8%. See "— Overview."

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 in 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 contains forward-looking statements that involve risks and uncertainties. These statements are based on current expectations and estimates about the Company's business. These statements include, in particular, statements relating to auction revenue rates, direct expense rates, G&A increases, income tax rates, the anticipated improvement, acquisition and development of permanent auction sites, and the financing available to the Company. 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; the timing and location of auctions; potential delays in construction or development of auction sites; actions of competitors; adverse changes in economic conditions; restrictions affecting the ability of equipment owners to transport equipment between jurisdictions; the ability of the Company to integrate the business acquired and personnel hired as a result of the Forke transaction; 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.