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

Overview

The following discussion summarizes the significant factors affecting the consolidated operating results and financial condition of Ritchie Bros. Auctioneers Incorporated ("Ritchie Bros." or the "Company") for the year ended December 31, 2001 compared to the year ended December 31, 2000. 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 10 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 December 31, 2001, the Company operated from over 90 locations in North and Central America, Europe, Asia, Australia, Africa 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. Beginning in 2002, auction revenue

will include a fee equal to 10% of the auction selling price on all lots sold for \$2,500 or less (for auctions conducted in currencies other than US dollars, the threshold amount is 2,500 in the currency of the auction).

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.

During 2001 the Company held its largest auction sale ever conducted in North America at Ocala, Florida generating gross auction sales of more than \$52 million. The Company also opened a new permanent auction facility in North East, Maryland, replacing an existing regional auction unit. In addition, the Company opened its new corporate head office in Richmond, B.C., Canada.

Also during 2001, the Company's rbauctionBid-Live technology was rolled out on a trial basis allowing qualified bidders to participate over the internet in certain auctions, live and in real-time. This service is being launched in 2002.

Results of Operations

Auction Revenues

Auction revenues of \$117.0 million for the year ended December 31, 2001 increased by \$10.9 million, or 10.2% from 2000 due to increased gross auction sales and a higher average percentage of auction revenues earned by the Company on gross auction sales. Gross auction sales of \$1.29 billion for the year ended December 31, 2001 increased \$57.9 million, or 4.7%, over the prior year, primarily as a result of increased gross auction sales in the United States, and Dubai, UAE. Results for 2001 included significant auctions in Fort Worth, Texas; Ocala, Florida and in the Port of Moerdijk, the Netherlands. Auction revenues as a percentage of gross auction sales have averaged approximately 8.80% on a long-term basis. In the year ended December 31, 2001, the auction revenue rate of 9.06% was higher than the long-term average and higher than the 8.61% rate experienced in the year ended December 31, 2000.

Beginning in 2002, auction revenue will include a fee equal to 10% of the auction selling price on all lots sold for \$2,500 or less (for auctions conducted in currencies other than US dollars, the threshold amount is 2,500 in the currency of the auction). The impact of this fee on auction revenues and the Company's auction revenue rate in any future period will depend on the quantity and the value of lots sold during that period. The Company believes that the impact of this fee on auction revenues in future periods will be an increase of approximately 0.3% of gross auction sales, depending on the quantity and value of lots sold in such periods. Management does not anticipate any other changes to its long-term average auction revenue rate in 2002.

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 at the auction site and advertising specifically related to the auction. Direct expenses of \$18.9 million for the year ended December 31, 2001 increased by \$0.9 million compared to 2000 due to increased auction activity generated by the Company in 2001. As a percentage of gross auction sales, direct expenses were 1.46% for the year ended December 31, 2001, consistent with the 1.45% ratio experienced in the prior year. Direct expenses as a percentage of gross auction sales fluctuate based on the size and location of auctions held each period. Management expects that, on average, direct expenses as a percentage of gross auction sales will be approximately 1.45% in 2002.

Depreciation and Amortization Expense

Depreciation is calculated on capital assets employed in the Company's business, including building and site improvements, automobiles, yard equipment, and computers. Amortization results from expensing, over 20 years, the \$33.0 million of goodwill recorded as a result of a business acquisition in 1999. In the year ended December 31, 2001, depreciation and amortization expense was \$9.1 million, compared to \$7.8 million in 2000. This increase is primarily the result of the depreciation of new auction facilities constructed over the past year. Management anticipates that depreciation expense will increase as existing auction sites are improved and additional permanent auction sites are acquired and developed. However, goodwill amortization will cease effective January 1, 2002, (see "Recent Accounting Pronouncements" below.)

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, 2001, the Company incurred G&A of \$56.5 million, as compared to \$52.9 million in 2000. This increase in expenditures is attributable to an increase in employee numbers and infrastructure to support the growth

initiatives of the Company, and costs associated with the operation of new permanent auction sites. Future levels of G&A will be affected by infrastructure and workforce expansion necessary to support the Company's growth plans and other factors.

Income from Operations

Income from operations was \$32.5 million for the year ended December 31, 2001 compared to \$27.5 million in 2000. This increase is primarily the result of increased auction revenues partially offset by increased G&A and depreciation and amortization expense.

Interest Expense

Interest expense includes interest and bank charges paid on term bank debt. Interest expense for the year ended December 31, 2001 was \$4.0 million, compared to \$3.4 million incurred in 2000. The increase resulted primarily from debt incurred to finance the development of additional facilities. During the year, the Company capitalized \$1.7 million (2000 — \$1.1 million) of interest related to properties under development. Management anticipates that interest expense may increase further if additional debt is incurred to finance the development of permanent auction sites and as the capitalization of interest decreases in conjunction with the completion of building projects currently under development. See "Overview" and "Liquidity and Capital Resources".

Other Income

Other income arises primarily from equipment appraisals performed by the Company offset by related expenses, and other miscellaneous sources. Other income for the year ended December 31, 2001 was \$1.4 million compared to \$1.3 million in 2000.

Income Taxes

Income taxes of \$9.9 million for the year ended December 31, 2001 have been computed based on rates of tax that apply in each of the tax jurisdictions in which the Company operates. The effective tax rate of 33.0% on net income for the year ended December 31, 2001 is higher than the 32.2% rate the Company experienced in 2000 primarily due to a charge of \$2.0 million for withholding taxes paid on an intercompany dividend. Such a charge had not previously been incurred by the Company, nor is such a charge expected to be incurred in the foreseeable future. Excluding this charge, the effective tax rate was 26.3%, lower than the 32.2% rate experienced in 2000 due to the different jurisdictions in which the Company operates and earns its income.

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, 2001, working capital including cash was \$22.5 million, which is within the Company's current target for working capital, compared to \$30.9 million at December 31, 2000. This decrease of \$8.4 million during the year is primarily a result of the Company utilizing excess working capital for capital expenditures related to permanent auction sites.

Capital expenditures by the Company during the year ended December 31, 2001 were \$38.1 million as compared to \$46.5 million for the year ended December 31, 2000. In 2001, the Company continued to incur site development costs in the United States and Canada. The Company is continuing with its plan to add additional permanent auction sites in selected locations and is presently in various stages of commitments to acquire land for development in the United States. Actual expenditure levels will depend on the Company's ability to identify, acquire and develop suitable auction sites.

The Company has established credit facilities with financial institutions in the United States, Canada, Europe, and Australia. The Company presently has access to credit lines for operations of approximately \$96.4 million and to credit lines for funding property acquisitions of approximately \$95.0 million. At December 31, 2001, the Company had no bank debt related to operations, and bank debt related to property acquisitions totaled \$74.5 million, leaving a net credit line of \$96.4 million available for operations and net credit lines of \$20.5 million available for property acquisitions. See "Overview".

Recent Accounting Pronouncements

The Accounting Standards Board in Canada and the Financial Accounting Standards Board in the United States have announced new standards related to the accounting for goodwill. The new standards indicate that reporting entities with previously recorded goodwill, will cease amortizing goodwill commencing January 1, 2002. Instead the carrying value of goodwill will be subject to a regular test for impairment. Amortization expense on goodwill recognized to December 31, 2001 is set out on the consolidated statements of income. The Company is currently assessing the other implications to its consolidated financial statements of these standards.

Forward-Looking Statements

This Annual Report, including 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, and income tax rates, the anticipated improvement, acquisition and development of permanent auction sites, internet initiatives, and the financing available to the Company. Words such as "expects", "intends", "plans", "believes", "estimates", "anticipates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. The following important 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 have an impact on the supply of and demand for used equipment; fluctuations in the market values of used equipment; potential inability to achieve and manage growth; periodic and seasonal variations in operating results or financial conditions; the timing and location of auctions; the quantity and value of lots sold; 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; potential losses from price guarantees, purchases of inventory, advances by the Company and guarantees of clear title; risks of noncompliance with governmental and environmental regulation; potential inadequacy of insurance coverage; risks of international operations; dependence of key personnel; failure, pace or lack of development of Internet-related initiatives; and other risks and uncertainties as detailed in the Company's periodic filings with the United States Securities and Exchange Commission including its annual return for 2001 filed on Form 40-F in April 2002. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by securities legislation. Forward-looking statements should be considered in light of these factors.

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, 2001 and 2000 and the consolidated statements of income, shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2001. 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, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 15, 2002

CONSOLIDATED STATEMENTS OF INCOME

(Expressed in thousands of United States Dollars)

Years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Auction revenues	\$ 116,991	\$ 106,125	\$ 104,624
Direct expenses	(18,861)	(17,936)	(17,469)
	98,130	88,189	87,155
Expenses:			
Depreciation and amortization	9,076	7,761	5,581
General and administrative	56,517	52,942	47,346
	65,593	60,703	52,927
Income from operations	32,537	27,486	34,228
Other income (expenses):			
Interest expense	(4,024)	(3,378)	(1,705)
Other	1,409	1,252	1,209
	(2,615)	(2,126)	(496)
Income before income taxes	29,922	25,360	33,732
Income taxes (note 9):			
Current	6,720	7,979	10,902
Withholding taxes on intercompany dividend	2,000	—	—
Future	1,148	176	550
	9,868	8,155	11,452
Net income	\$ 20,054	\$ 17,205	\$ 22,280
Net income per share (note 1(n)):			
Basic	\$ 1.20	\$ 1.03	\$ 1.34
Diluted	1.19	1.02	1.32
Weighted average number of shares outstanding	16,761,247	16,743,433	16,686,595

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors



C. Russell Cmolik
Director



David E. Ritchie
Director

CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of United States Dollars)

December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,533	\$ 63,435
Accounts receivable	12,375	10,565
Inventory	2,940	9,175
Advances against auction contracts	87	—
Prepaid expenses and deposits	1,327	1,234
Income taxes recoverable	1,410	911
Capital assets available for sale	3,269	7,305
	70,941	92,625
Capital assets (note 3)	167,650	140,621
Funds committed for debt repayment (note 6)	7,893	3,250
Goodwill (note 4)	28,466	30,116
Future income taxes (note 9)	593	1,741
	\$ 275,543	\$ 268,353
Liabilities and Shareholders' Equity		
Current liabilities:		
Auction proceeds payable	\$ 11,807	\$ 23,556
Accounts payable and accrued liabilities	23,274	28,846
Short-term debt (note 5)	5,314	2,057
Current bank term loans (note 6)	7,998	7,309
	48,393	61,768
Bank term loans (note 6)	61,217	57,821
	109,610	119,589
Shareholders' equity:		
Share capital (note 7)	69,134	69,132
Additional paid-in capital (note 7(f))	4,332	4,332
Retained earnings	101,311	81,257
Foreign currency translation adjustment	(8,844)	(5,957)
	165,933	148,764
	\$ 275,543	\$ 268,353

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Expressed in thousands of United States Dollars)

	Share capital	Additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Total shareholders' equity
Balance, December 31, 1998	\$ 64,728	\$ —	\$ 41,772	\$ (2,328)	\$ 104,172
Net proceeds on stock options exercised	3	—	—	—	3
Employee share compensation	1,344	—	—	—	1,344
Common shares issued on acquisition of goodwill (note 7(f))	3,055	—	—	—	3,055
Warrants issued on acquisition of goodwill (note 7(f))	—	4,332	—	—	4,332
Net income	—	—	22,280	—	22,280
Foreign currency translation adjustment	—	—	—	(791)	(791)
Balance, December 31, 1999	69,130	4,332	64,052	(3,119)	134,395
Net proceeds on stock options exercised	2	—	—	—	2
Net income	—	—	17,205	—	17,205
Foreign currency translation adjustment	—	—	—	(2,838)	(2,838)
Balance, December 31, 2000	69,132	4,332	81,257	(5,957)	148,764
Net proceeds on stock options exercised	2	—	—	—	2
Net income	—	—	20,054	—	20,054
Foreign currency translation adjustment	—	—	—	(2,887)	(2,887)
Balance, December 31, 2001	\$ 69,134	\$ 4,332	\$ 101,311	\$ (8,844)	\$ 165,933

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States Dollars)

Years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Cash and cash equivalents provided by (used in):			
Operating activities:			
Net income	\$ 20,054	\$ 17,205	\$ 22,280
Items not involving the use of cash:			
Depreciation	7,426	6,110	4,345
Amortization of goodwill	1,650	1,651	1,236
Employee share compensation	—	—	1,344
Future income taxes	1,148	176	550
Net recognized gains on sale of property	(721)	—	—
Changes in non-cash working capital:			
Accounts receivable	(1,810)	(920)	(2,874)
Inventory	6,235	(5,972)	(848)
Advances against auction contracts	(87)	856	4,489
Prepaid expenses and deposits	(93)	(13)	(510)
Income taxes	(499)	(46)	(3,944)
Auctions proceeds payable	(11,749)	7,378	2,148
Accounts payable and accrued liabilities	(5,572)	10,955	(3,860)
Other	(492)	(231)	(86)
	15,490	37,149	24,270
Investing activities:			
Capital asset additions	(38,098)	(46,539)	(55,153)
Proceeds on sale of property	5,221	—	—
Acquisition of goodwill	—	—	(25,616)
	(32,877)	(46,539)	(80,769)
Financing activities:			
Issuance of share capital	2	2	3
Issuance of bank term loans	8,139	26,669	36,807
Repayment of bank term loans	(3,270)	(2,045)	(4,539)
Short-term debt	3,257	(4,472)	6,529
Funds committed for debt repayment	(4,643)	(3,250)	—
	3,485	16,904	38,800
Increase (decrease) in cash and cash equivalents	(13,902)	7,514	(17,699)
Cash and cash equivalents, beginning of year	63,435	55,921	73,620
Cash and cash equivalents, end of year	\$ 49,533	\$ 63,435	\$ 55,921
Supplemental disclosure of cash flow information:			
Interest paid, excluding interest capitalized	\$ 3,821	\$ 3,948	\$ 2,633
Income taxes paid	9,233	8,123	14,861
Non-cash investing activities:			
Common shares issued on acquisition of goodwill	—	—	3,055
Warrants issued on acquisition of goodwill	—	—	4,332
Non-cash financing activities:			
Employee share compensation	—	—	1,344

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2001, 2000 and 1999

1. Significant accounting policies:

(a) *Basis of presentation:*

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

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada which, except as disclosed in note 10, also comply, in all material respects, with generally accepted accounting principles in the United States.

(b) *Cash and cash equivalents:*

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

(c) *Inventory:*

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

(d) *Capital assets available for sale:*

Capital assets available for sale are valued at lower of cost and net realizable value.

(e) *Advances against auction contracts:*

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

(f) *Capital assets:*

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

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

(g) *Goodwill:*

Goodwill, which represents non-identifiable intangible assets acquired, has been amortized on a straight-line basis over the expected period to be benefited, which is 20 years. The Company periodically assessed the recoverability of goodwill by determining whether the amortization of the carrying value over its remaining life could be recovered through estimated undiscounted future operating cash flows. Effective January 1, 2002 the Company ceased amortizing goodwill in accordance with new Accounting Standards related to the accounting for goodwill.

(h) *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.

(i) *Income taxes:*

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

(j) *Foreign currency translation:*

The Company's reporting currency is the United States dollar. The functional currency for each of the Company's operations is the currency of the country of residency or the United States dollar. Each of these operations is considered to be self-sustaining. Accordingly, the financial statements of operations of the Company that are not located in the United States have been translated into United States dollars using the exchange rate at the end of each reporting period for asset and liability amounts and the average exchange rate for each reporting period for amounts included in the determination of income. Any gains or losses from this translation have been included in the foreign currency translation adjustment account which is included in shareholders' equity.

Monetary assets and liabilities recorded in foreign currencies are translated into the appropriate functional currency at the rate of exchange in effect at the balance sheet date. Foreign currency denominated transactions are translated into the appropriate functional currency at the exchange rate in effect on the date of the transaction. Any exchange gains and losses on these are included in the determination of income.

(k) *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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2001, 2000 and 1999

1. Significant accounting policies (continued):

(l) *Financial instruments:*

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

(m) *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.

(n) *Net income per share:*

Net income per share has been calculated based on the weighted average number of common shares outstanding. Diluted net income per share has been calculated after giving effect to outstanding dilutive options.

(o) *Stock-based compensation:*

The Company has a stock-based compensation plan, which is described in note 7(c). No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

(p) *Comparative figures:*

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

2. Change in accounting policy

Effective January 1, 2001 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") new handbook section 3500 regarding earnings per share. The new standard requires the use of the treasury stock method instead of the current imputed earnings approach to calculate diluted earnings per share. This change was given retroactive application resulting in an increase of diluted net income per share for the year ended December 31, 2000, to \$1.02 from \$1.01, and for the year ended December 31, 1999 to \$1.32 from \$1.31.

3. Capital assets:

December 31, 2001	Cost	Accumulated depreciation	Net book value
Buildings	\$ 70,731	\$ 7,154	\$ 63,577
Land and improvements	66,551	2,040	64,511
Land and buildings under development	25,607	—	25,607
Automotive equipment	8,366	3,095	5,271
Yard equipment	4,803	2,293	2,510
Office equipment	4,135	1,970	2,165
Computer equipment	3,325	1,845	1,480
Computer software	3,182	1,334	1,848
Leasehold improvements	1,008	327	681
	\$ 187,708	\$ 20,058	\$ 167,650

December 31, 2000	Cost	Accumulated depreciation	Net book value
Buildings	\$ 58,639	\$ 5,011	\$ 53,628
Land and improvements	62,291	1,755	60,536
Land and buildings under development	13,854	—	13,854
Automotive equipment	7,821	2,839	4,982
Yard equipment	4,317	1,802	2,515
Office equipment	3,421	1,685	1,736
Computer equipment	2,942	1,531	1,411
Computer software	2,261	621	1,640
Leasehold improvements	520	201	319
	\$ 156,066	\$ 15,445	\$ 140,621

During the year, interest of \$1,697,225 (2000 - \$1,141,007) was capitalized to cost of buildings under development.

4. Goodwill:

	2001	2000
Goodwill	\$ 33,003	\$ 33,003
Accumulated amortization	4,537	2,887
	\$ 28,466	\$ 30,116

5. Short-term debt:

Short-term debt consists of a draw on lines of credit in the amounts of \$5,000,000 and \$314,000 with a weighted average interest rate of 2.99%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2001, 2000 and 1999

6. Bank term loans:

	December 31, 2001	December 31, 2000
Term loan, unsecured, of \$25 million bearing interest at 7.21% and \$10 million bearing interest at 7.10%, due in minimum annual instalments of \$5 million (\$1.75 million towards principal, \$3.25 million towards a sinking fund), with the final payment occurring in 2004	\$ 31,500	\$ 33,250
Term loan, unsecured, of CAD 10 million bearing interest at 7.195%, due in monthly instalments of interest only, with the full amount of the principal due in 2004	6,278	6,669
Term loan, unsecured, of CAD 5 million bearing interest at 6.355%, due in monthly instalments of interest only, with the full amount of the principal due in 2004	3,139	—
Term loan, unsecured, of \$5 million bearing interest at 7.81%, due in minimum annual instalments of \$250,000, with final payment occurring in 2005	4,750	5,000
Term loan, unsecured, of \$5 million bearing interest at 7.91%, due in minimum annual instalments of \$250,000, with final payment occurring in 2005	4,750	5,000
Term loan, unsecured, of \$5 million bearing interest at 7.91%, due in minimum annual instalments of \$714,300 (\$250,000 towards principal, \$464,300 towards a sinking fund), with the final payment occurring in 2005	4,750	5,000
Term loan, unsecured, of \$5 million bearing interest at 7.35%, due in minimum annual instalments of \$714,300 (\$250,000 towards principal, \$464,300 towards a sinking fund), with the final payment occurring in 2006	4,750	5,000
Term loan, unsecured, of \$5 million bearing interest at 7.0%, due in minimum annual instalments of \$714,300 (\$250,000 towards principal, \$464,300 towards a sinking fund), with the final payment occurring in 2006	4,750	—
Term loan of AUD 2.7 million, secured by deeds of trust on specific property, with AUD 1.7 million bearing interest at 6.5% and AUD 1 million bearing interest at the Australian prime rate, due in quarterly instalments of AUD \$75,000, including interest, with final payment occurring in 2010	1,062	1,321
Term loan of NLG 10 million, secured by deeds of trust on specific property, bearing interest at the Amsterdam Interbank Offered Rate plus 7/8%, due in quarterly instalments of NLG 125,000 including interest, with the final payment occurring in 2013	3,486	3,890
	69,215	65,130
Current portion	7,998	7,309
	\$ 61,217	\$ 57,821
Funds committed for debt payment	7,893	3,250
	\$ 53,324	\$ 54,571

As at December 31, 2001, principal repayments including sinking fund requirements are as follows for the next five years:	
2002	\$ 7,998
2003	7,999
2004	33,916
2005	12,391
2006	4,141
Thereafter	2,770
	\$ 69,215

7. Share capital:

(a) Authorized:

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

(b) Issued:

Issued and outstanding, December 31, 1998	16,548,666
Number of common shares issued during the year ended December 31, 1999:	
For cash, pursuant to stock options exercised	34,598
Employee share compensation (note 7(e))	50,000
Pursuant to acquisition of goodwill (note 7(f))	100,000
Issued and outstanding, December 31, 1999	16,733,264
Number of common shares issued during the year ended December 31, 2000:	
For cash, pursuant to stock options exercised	15,299
Issued and outstanding, December 31, 2000	16,748,563
Number of common shares issued during the year ended December 31, 2001:	
For cash, pursuant to stock options exercised	18,667
Issued and outstanding, December 31, 2001	16,767,230

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2001, 2000 and 1999

7. Share capital (continued):

(c) Options:

The Company has a stock option plan that provides for the award of stock options to selected employees, directors and officers of the Company and to other persons approved by the Board of Directors. At December 31, 2001, there were 1,004,917 (2000 — 1,162,667) shares authorized for grants of options under the stock option plan. Stock option activity for 2000 and 2001 is presented below:

	Number of options outstanding	Weighted average exercise price
Outstanding, December 31, 1998	207,000	\$ 4.67
Granted	27,000	31.23
Cancelled	(4,166)	0.10
Exercised	(34,598)	0.10
Outstanding, December 31, 1999	195,236	9.20
Granted	78,000	26.66
Cancelled	(16,301)	5.00
Exercised	(15,299)	0.10
Outstanding, December 31, 2000	241,636	15.70
Granted	157,750	23.44
Cancelled	(4,000)	24.60
Exercised	(18,667)	0.10
Outstanding, December 31, 2001	376,719	\$ 19.62
Exercisable, December 31, 2000	201,469	\$ 15.52

The options outstanding at December 31, 2001 expire on dates ranging to December 6, 2011.

The following is a summary of stock options outstanding and exercisable at December 31, 2001.

Range of exercise prices	Number Outstanding	Options outstanding		Options exercisable	
		Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.10	84,969	2.58	\$ 0.10	84,969	\$ 0.10
\$26.12 - \$38.625	291,750	7.93	\$ 25.30	116,500	\$ 26.77
	376,719			201,469	

With respect to the options granted in 2000 and 2001, the current market price did not exceed the exercise price at the grant date, therefore, no compensation expense has been recorded.

(d) Warrants:

	2001	2000
Warrants outstanding (note 7(f))	—	400,000

The warrants expired April 1, 2001.

(e) Employee share compensation:

During 1999, the Company issued 50,000 common shares to an employee. The transaction was recorded at the market value of the common shares on the issuance date of \$26.88 per share. Compensation expense of \$1,344,000 was recorded for this issuance.

(f) Acquisition of goodwill:

During 1999, the Company acquired non-identifiable intangible assets related to an auction business through the payment of \$25 million cash and the issuance of 100,000 common shares and 400,000 warrants to acquire common shares of the Company. The warrants expired on April 1, 2001. The shares were valued using the market price of \$30.55 per share and the warrants were valued at \$4,332,000 using an option pricing model.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended December 31, 2001, 2000 and 1999

8. Segmented information:

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

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

	United States	Canada	Other	Combined
Year ended December 31, 2001:				
Auction revenues	\$ 76,272	\$ 18,485	\$ 22,234	\$ 116,991
Capital assets and goodwill	124,433	42,939	28,744	196,116
Year ended December 31, 2000:				
Auction revenues	66,425	18,517	21,183	106,125
Capital assets and goodwill	109,376	30,005	31,356	170,737
Year ended December 31, 1999:				
Auction revenues	64,766	17,110	22,748	104,624
Capital assets and goodwill	94,662	17,463	30,101	142,226

9. Income taxes:

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

	2001	2000	1999
Statutory tax rates in the United States	35%	35%	35%
Expected income tax expense	\$ 10,473	\$ 8,876	\$ 11,806
Differences:			
State taxes in the United States	1,197	1,014	1,349
Income taxed in foreign jurisdictions	(3,839)	(2,052)	(1,289)
Withholding taxes on intercompany dividend	2,000	—	—
Other	37	317	(414)
Actual income tax expense	\$ 9,868	\$ 8,155	\$ 11,452

Future income tax assets and liabilities are as follows:

	2001	2000
Future income tax assets:		
Capital assets	\$ 777	\$ 810
Tax deductible benefit of options granted	471	579
Tax deductible financing costs incurred in the course of the Company's initial public offering in March 1998	435	880
Unused tax losses, expiring on December 31, 2004 to 2007	1,613	1,327
Total future income tax assets	3,296	3,596
Valuation allowance	(761)	(458)
Net future income tax assets	2,535	3,138
Future income tax liabilities arising from temporary differences between the tax basis of net assets and their carrying value:		
Capital assets	(1,350)	(1,021)
Goodwill	(592)	(376)
Total future income tax liabilities	(1,942)	(1,397)
	\$ 593	\$ 1,741

10. United States generally accepted accounting principles:

The consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which differ, in certain respects, from accounting practices generally accepted in the United States and from requirements promulgated by the Securities and Exchange Commission. However, for the years ended December 31, 2001, 2000, and 1999, net income in accordance with Canadian GAAP equals net income in accordance with United States GAAP.

Consolidated statements of comprehensive net income:

	2001	2000	1999
Net income in accordance with Canadian and United States GAAP	\$ 20,054	\$ 17,205	\$ 22,280
Other comprehensive loss (note 10(a)):			
Foreign currency translation adjustment	(2,887)	(2,838)	(791)
Comprehensive income in accordance with United States GAAP	\$ 17,167	\$ 14,367	\$ 21,489

(a) Other comprehensive loss

Comprehensive loss includes the change in equity or net assets of the Company during the period from non-owner sources, including foreign exchange adjustments, and reflected as a separate component of shareholders' equity.

SELECTED FINANCIAL AND OPERATING DATA

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

	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997	Year Ended April 30, 1997	Year Ended April 30, 1996
	(unaudited)						
Gross Auction Sales	\$ 1,290,897	\$ 1,232,974	\$ 1,170,529	\$ 1,087,800	\$ 946,415	\$ 792,865	\$ 752,735
Income Statement Data							
Auction revenues	\$ 116,991	\$ 106,125	\$ 104,624	\$ 94,899	\$ 85,009	\$ 72,186	\$ 65,306
Direct expenses	(18,861)	(17,936)	(17,469)	(16,010)	(17,351)	(13,908)	(13,138)
	98,130	88,189	87,155	78,889	67,658	58,278	52,168
Depreciation and amortization	(9,076)	(7,761)	(5,581)	(2,752)	(2,548)	(2,014)	(1,820)
General and administrative	(56,517)	(52,942)	(47,346)	(39,315)			
Income from operations	32,537	27,486	34,228	36,822			
Interest expense	(4,024)	(3,378)	(1,705)	(1,569)	(2,034)	(1,081)	(1,104)
Other income	1,409	1,252	1,209	3,251 ⁽¹⁾	754	917	1,179
Income before income taxes	29,922	25,360	33,732	38,504			
Income taxes	(9,868) ⁽³⁾	(8,155)	(11,452)	(13,670)			
Net income	\$ 20,054	\$ 17,205	\$ 22,280	\$ 24,834			
Net income per share-diluted	\$ 1.19 ⁽⁴⁾	\$ 1.02	\$ 1.32	\$ 1.54 ⁽²⁾			
Balance Sheet Data (end of year)							
Working capital (including cash)	\$ 22,548	\$ 30,857	\$ 25,980	\$ 49,149	\$ 3,322	\$ 39,707	\$ 33,132
Total assets	275,543	268,353	216,146	152,593	70,460	142,858	150,969
Long term debt	61,217	57,821	35,728	8,768	4,623	5,755	6,547
Total shareholders' equity	165,933	148,764	134,395	104,172	25,706	59,325	48,801
Selected Operating Data							
Auction revenues as percentage of gross auction sales	9.06%	8.61%	8.94%	8.72%	8.98%	9.10%	8.68%
Number of consignors	19,196	18,177	16,185	14,432	13,636	12,088	10,744
Number of buyers	46,647	41,940	38,958	34,613	33,340	30,630	27,837
Number of permanent auction sites (end of year)	21	20	17	13	13	13	12

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

- (1) Other income in 1998 includes \$1.8 million of non-recurring income.
- (2) 1998 net income per share is not comparable to 1999 net income per share because the average number of shares outstanding changed significantly between the two periods due to the impact of the Company's initial public offering in March 1998.
- (3) 2001 Income tax expense includes a charge of \$2.0 million for withholding taxes paid on an intercompany dividend.
- (4) Excluding the impact of withholding taxes paid on an intercompany dividend (see note 3), diluted net income per share in 2001 would have been \$1.31.

SUPPLEMENTAL QUARTERLY DATA

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

2001	Gross Auction Sales	Auction Revenue	Net Income	Net Income Per Share		Closing Stock Price
				Basic	Diluted	
1st quarter	\$ 289,724	\$ 25,445	\$ 3,062	\$ 0.18	\$ 0.18	\$ 23.50
2nd quarter	373,990	35,025	6,351 ⁽¹⁾	0.38 ⁽¹⁾	0.38 ⁽¹⁾	27.50
3rd quarter	179,294	16,851	(955)	(0.06)	(0.06)	24.85
4th quarter	447,889	39,670	11,596	0.69	0.69	24.88
	\$ 1,290,897	\$ 116,991	\$ 20,054 ⁽¹⁾	\$ 1.20 ⁽¹⁾	\$ 1.19 ⁽¹⁾	

2000	Gross Auction Sales	Auction Revenue	Net Income	Net Income Per Share		Closing Stock Price
				Basic	Diluted	
1st quarter	\$ 289,928	\$ 26,769	\$ 3,609	\$ 0.22	\$ 0.21	\$ 25.50
2nd quarter	353,354	29,570	6,109	0.36	0.36	23.94
3rd quarter	231,550	21,554	1,503	0.09	0.09	21.38
4th quarter	358,142	28,232	5,984	0.36	0.36	20.75
	\$ 1,232,974	\$ 106,125	\$ 17,205	\$ 1.03	\$ 1.02	

1999	Gross Auction Sales	Auction Revenue	Net Income	Net Income Per Share		Closing Stock Price
				Basic	Diluted	
1st quarter	\$ 201,764	\$ 18,013	\$ 1,632	\$ 0.10	\$ 0.10	\$ 33.69
2nd quarter	387,288	35,589	10,471	0.63	0.62	38.13
3rd quarter	219,024	20,699	2,146	0.13	0.13	38.00
4th quarter	362,453	30,323	8,031	0.48	0.47	27.75
	\$ 1,170,529	\$ 104,624	\$ 22,280	\$ 1.34	\$ 1.32	

1998	Gross Auction Sales	Auction Revenue	Net Income	Net Income Per Share		Closing Stock Price
				Basic	Diluted	
1st quarter	\$ 227,637	\$ 21,229	\$ 3,377	\$ 0.24	\$ 0.24	\$ 24.06
2nd quarter	339,219	29,188	8,492	0.51	0.51	26.56
3rd quarter ⁽²⁾	183,633	13,869	2,004	0.12	0.12	22.13
4th quarter	337,311	30,613	10,961	0.66	0.65	26.94
	\$ 1,087,800	\$ 94,899	\$ 24,834	\$ 1.56 ⁽³⁾	\$ 1.54 ⁽³⁾	

(1) Excluding the impact of \$2.0 million in withholding taxes paid on an intercompany dividend in the second quarter of 2001, net income for the quarter would have been \$8,351,000 (\$0.60 per share, basic or diluted) and net income for the full year would have been \$22,054,000 (\$1.32 per basic share, \$1.31 per diluted share).

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

(3) 1998 net income per share on a full year basis does not equal the sum of the quarterly amounts because the number of shares outstanding changed significantly in March 1998 when the company completed its initial public offering.