

Edgar Filing: ABLEAUCTIONS COM INC - Form 10-Q

ABLEAUCTIONS COM INC  
Form 10-Q  
November 19, 2001

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-28179

ABLEAUCTIONS.COM, INC.  
(Exact name of small business issuer in its charter)

Florida

59-3404233

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

1963 Lougheed Highway  
Coquitlam, British Columbia  
V3K-3T8

(Address of principal executive offices)

(604) 521-2253

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

The number of outstanding common shares, no par value, of the Registrant at September 30, 2001 was 20,976,661 at October 31, 2001 was 25,011,284

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PART I -

ITEM 1.

ABLEAUCTIONS.COM, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
AS AT  
SEPTEMBER 30, 2001  
UNAUDITED

ABLEAUCTIONS.COM, INC. 1.  
CONSOLIDATED BALANCE SHEET  
Unaudited

	September 30 2001	Decem 20
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 3,165,823	\$ 1,3
Accounts receivable - trade	528,021	8
Inventory	529,450	3
Prepaid expenses	260,450	1
Current portion of receivable on agreement for sale (Note 8(j))	14,287	
	-----	-----
Total current assets	4,498,031	2,6
Note Receivable (Note 4 )	100,000	1
Trademarks	9,278	
Capital Assets (Note 5)	3,120,986	3,0
Web Site Development Costs (Note 6 )	45,670	
Goodwill (Note 7 )	8,959,756	1,0
	-----	-----
Total assets	\$ 16,733,721	\$ 6,9
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current		
Accounts payable and accrued liabilities	\$ 4,687,478	\$ 2,1
Deferred compensation notes (Note 8m)	2,690,000	
Current portion of promissory note	9,058	
	-----	-----
Total current liabilities	7,386,536	2,1
Promissory Note (Note 9)	1,035,911	1,0
	-----	-----
Total liabilities	8,422,447	3,1
	-----	-----
Stockholders' equity		
Shares To Be Issued (Note 8m)	5,921,660	
Capital Stock (Note 10)		

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Authorized		
62,500,000 common shares with a par value of \$0.001		
Issued and outstanding common shares with a par value of \$0.001		
September 30, 2001 and December 31, 2000 - 20,976,661	20,976	
Additional Paid-In Capital	17,508,261	17,5
Deferred Option Plan Compensation	(362,436)	(52)
Deficit	(14,737,385)	(13,18)
Accumulated Other Comprehensive Loss	(39,802)	(2)
	-----	-----
 Total stockholders' equity	 8,311,274	 3,8
	-----	-----
 Total liabilities and stockholders' equity	 \$ 16,733,721	 \$ 6,9
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements

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### ABLEAUCTIONS.COM, INC.

#### CONSOLIDATED STATEMENT OF OPERATIONS

Unaudited

	Three Month Period Ended September 30, 2001	Three Month Period Ended September 30, 2000	Nine Month Period Ended September 30, 2001
REVENUES			
Sales	\$ 1,196,605	\$ 3,356,955	\$ 4,976,385
Commissions	911,127	466,931	2,680,259
	-----	-----	-----
	2,107,732	3,823,886	7,656,644
 COST OF REVENUES	 1,103,449	 2,670,315	 3,617,652
	-----	-----	-----
 GROSS PROFIT	 1,004,283	 1,153,571	 4,038,992
	-----	-----	-----
 OPERATING EXPENSES			
Accounting and legal	17,205	113,586	52,354
Advertising and promotion	248,811	337,254	783,399
Amortization of goodwill	72,789	38,573	218,364
Automobile	15,936	21,755	49,778
Bad debts	27,571	40,409	28,007
Commission	30,735	91,539	89,023
Consulting	69,505	34,710	261,119
Depreciation and amortization of capital assets	96,624	176,888	275,944
Insurance	39,537	42,455	98,457

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Interest on promissory note	22,604	-	69,992
Investor relations and shareholder information	4,736	19,101	5,913
Licenses and permits	643	18,147	2,253
Management fees (recovery)	-	(4,361)	-
Office and administration	132,502	122,705	386,298
Rent and utilities	217,355	198,978	606,610
Repairs and maintenance	41,333	68,755	113,929
Salaries and benefits	545,134	1,078,587	1,841,675
Telephone	44,714	61,096	130,828
Travel	19,847	132,419	53,092
	<u>1,647,581</u>	<u>2,592,596</u>	<u>5,067,035</u>
Loss Before Other Items	(643,298)	(1,439,025)	(1,028,043)
OTHER ITEMS			
Interest income	15,475	31,927	21,751
Foreign exchange gain (loss)	19,974	(59,530)	18,422
	<u>35,449</u>	<u>(27,603)</u>	<u>40,173</u>
Income (Loss) From Continuing Operations	\$ (607,849)	\$ (1,466,628)	\$ (987,870)
Loss On Dispositions Of Subsidiaries (Notes 8(j/l))	(101,245)	-	(532,327)
Gain (Loss) From Discontinued Operations (Notes 8(j/l))	3,144	-	(33,139)
Loss For The Period	<u>\$ (705,950)</u>	<u>\$ (1,466,628)</u>	<u>\$ (1,553,336)</u>
Basic And Diluted Income (Loss) Per Share			
From Continuing Operations	\$ (0.03)	\$ (0.07)	\$ (0.05)
From Discontinued Operations	-	-	(0.02)
	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>
Weighted average number of shares of common stock outstanding	<u>20,976,661</u>	<u>20,939,952</u>	<u>20,976,661</u>

The accompanying notes are an integral part of these consolidated financial statements

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ABLEAUCTIONS.COM, INC.  
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS  
Unaudited

Three Month Period Ended September 30, 2001	Three Month Period Ended September 30, 2000	Nine Month Period Ended September 30, 2001	P
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Loss For The Period	\$ (705,950)	\$ (1,466,628)	\$ (1,553,336)
Other Comprehensive Income (Loss), net of tax: Foreign currency translation adjustments	(31,786)	14,166	(18,504)
Consolidated Comprehensive Loss	\$ (737,736)	\$ (1,452,462)	\$ (1,571,840)
Basic and Diluted Comprehensive Loss Per Share	\$ (0.04)	\$ (0.07)	\$ (0.07)
Weighted Average Number of Shares Outstanding	20,976,661	20,939,952	20,976,661

The accompanying notes are an integral part of these consolidated financial statements

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ABLEAUCTIONS.COM, INC.  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Unaudited

	Shares to be issued	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Option Plan Compensatio
Balance, Dec. 31, 1999	\$ -	18,310,001	\$ 18,310	\$ 3,740,108	\$ 11,445	\$ -
Private placements	-	2,210,240	2,210	11,048,990	-	-
Share issuance costs	-	-	-	(1,147,670)	-	-
Common stock issued for acquisition of assets of Falcon Trading Inc.	-	53,405	53	360,752	-	-
Common stock issued for acquisition of land and a building	-	155,486	155	1,243,733	-	-
Common stock issued for acquisition of assets of Mesler's Auction House	-	30,625	31	244,969	-	-
Common stock issued for acquisition of rights to a trademark	-	4,822	5	34,473	-	-
Common stock issued for acquisition of assets of Auctions West Sales Corporation	-	10,000	10	69,990	-	-
Common stock issued for acquisition of Ehli's Commercial/Industrial Auctions, Inc.	-	50,000	50	349,950	-	-

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Common stock issued for acquisition of Johnston's Surplus Office Systems	-	68,182	68	513,342	-	-	
Common stock issued for acquisition of Warex Supply Ltd.	-	6,900	7	55,193	-	-	
Stock options exercised	-	77,000	77	354,323	-	-	
Deferred option plan compensation	-	-	-	640,108	-	(640,108)	
Stock based compensation	-	-	-	-	-	120,019	
Translation adjustment	-	-	-	-	(32,743)	-	
Loss for the year	-	-	-	-	-	-	(1)
<hr/>							
Balance, Dec. 31, 2000	\$ -	20,976,661	\$20,976	\$17,508,261	\$ (21,298)	\$ (520,089)	\$ (1,380,801)
<hr/>							
Shares to be issued for acquisition of shares of iCollector PLC	5,934,500	-	-	-	-	-	-
Share issuance costs	(12,840)	-	-	-	-	-	-
Stock based compensation	-	-	-	-	-	157,653	-
Translation adjustment	-	-	-	-	(18,504)	-	-
Loss for the period	-	-	-	-	-	-	(1)
<hr/>							
Balance, Sept.30, 2001	\$5,921,660	20,976,661	\$20,976	\$17,508,261	\$ (39,802)	\$ (362,436)	\$ (1,380,801)
<hr/>							

The accompanying notes are an integral part of these consolidated financial statements

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ABLEAUCTIONS.COM, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

	Nine Month Period Ended September 30, 2001	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the period from continuing operations	\$ (987,870)	\$
Non-cash items included in loss:		
Depreciation and amortization of capital assets	275,944	
Amortization of goodwill	218,364	
Bad debts	28,007	
Stock based compensation	157,653	
	-----	
	(307,902)	

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Changes in operating working capital items:		
Decrease (increase) in accounts receivable		30,743
Increase in inventory		(341,696)
Increase in prepaid expenses		(171,426)
Increase in accounts payable and accrued liabilities		454,109
		-----
Net cash used in operating activities		(336,172)
		-----
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Loss for the period from discontinued operations		(33,139)
Net change in net assets of discontinued operations		23,883
		-----
Net cash used in discontinued operations		(9,256)
		-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets		(76,526)
Cash acquired on investments in subsidiaries		2,161,308
Proceeds on disposition of subsidiaries, net of cash divested		23,207
Proceeds of receivable on agreement for sale		64,994
Website development costs		-
Acquisition of investment		-
		-----
Net cash from (used in) investing activities		2,172,983
		-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of promissory note		(7,202)
Issuance of common stock		-
Share issuance costs		(12,840)
		-----
Net cash from (used in) financing activities		(20,042)
		-----
Change in cash and cash equivalents for the period		1,807,513
Cash and cash equivalents, beginning of period		1,376,814
Effect of exchange rates on cash		(18,504)
		-----
Cash and cash equivalents, end of period		\$ 3,165,823
		=====

Supplemental disclosures with respect to cash flows (Note 12)

The accompanying notes are an integral part of these consolidated financial statements

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

## 1. HISTORY AND ORGANIZATION OF THE COMPANY

Ableauctions.com, Inc. (the 'Company') was organized on September 30, 1996, under the laws of the State of Florida, as J.B. Financial Services, Inc. On July 19, 1999, an Article of Amendment was filed with the State of Florida for the change of the Company's name from J.B. Financial Services, Inc. to Ableauctions.com, Inc.

The Company's primary business activity is as a high-tech business-to-business and consumer auctioneer that conducts its auctions live and simultaneously broadcasts over the Internet. The Company liquidates a broad range of computers, electronics, office equipment, furniture and industrial equipment that it acquires through bankruptcies, insolvencies and defaults.

The Company's primary operating subsidiaries at September 30, 2001 were:

Able Auctions (1991) Ltd., operating a Canadian-based auction business.

Ableauctions.com (Washington) Inc., operating a U.S.-based auction business.

Ehli's Commercial/Industrial Auctions, Inc., a U.S.-based liquidator of automobiles and industrial equipment.

Jarvis Industries Ltd., operating a Canadian-based auction business.

iCollector PLC, operating a U.K.-based auction business which also operates in the U.S.

The Company's common stock is listed on the American Stock Exchange under the ticker symbol AAC.

## 2. GOING CONCERN

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has incurred significant losses since its inception. In order to continue as a going concern, the Company must generate profits and/or obtain additional financing. It is management's plan to seek additional capital through equity financing.



ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

3. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These consolidated financial statements include the accounts of Ableauctions.com, Inc. and its wholly owned subsidiaries, from the dates of acquisition.

b) Foreign currency translation

The Company accounts for foreign currency transactions and translation of foreign currency financial statements under Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" ("SFAS 52"). Transaction amounts denominated in foreign currencies are translated at exchange rates prevailing at transaction dates. Carrying values of monetary assets and liabilities are adjusted at each balance sheet date to reflect the exchange rate at that date. Non-monetary assets and liabilities are translated at the exchange rate on the original transaction date. Gains and losses from restatement of foreign currency monetary and non-monetary assets and liabilities are included in income. Revenues and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings.

Financial statements of the Company's Canadian and U.K. subsidiaries (see Note 1) are translated into U.S. dollars using the exchange rate at the balance sheet date for assets and liabilities. The Company's investments in the structural capital of the Canadian and U.K. subsidiaries have been recorded at the historical cost in U.S. dollars. The resulting gains or losses are reported as a separate component of stockholders' equity. The functional currency of the Canadian and U.K. subsidiaries, are the local currencies, the Canadian dollar and the U.K. pound sterling respectively.

c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual results could differ from those estimates.

d) Cash and cash equivalents

Cash and cash equivalents includes highly liquid investments with original maturities of three months or less and bank indebtedness.

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## e) Financial instruments

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, receivable on agreement for sale, note receivable, accounts payable and accrued liabilities, and notes payable, approximated fair value at September 30, 2001.

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## ABLEAUCTIONS.COM, INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### f) Inventory

Inventory is stated at the lower of cost and estimated net realizable value.

#### g) Software development

The Company has adopted Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", as its accounting policy for internally developed computer software costs. Under SOP 98-1, computer software costs incurred in the preliminary development stage are expensed as incurred. Computer software costs incurred during the application development stage are capitalized and amortized over the software's estimated useful life.

#### h) Capital assets and depreciation and amortization

Capital assets are recorded at cost. The cost of capital assets is depreciated using the declining balance method at the following annual rates:

Building	4%
Furniture, fixtures and equipment	20%
Computer equipment	30%
Computer software	30%
Vehicles	30%

Leasehold improvements are amortized using the straight-line method over the terms of the leases.

#### i) Revenue recognition

The Company generally earns revenues from its auction activities either through consignment sales, or through sales of inventory

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purchased by the Company. For consignment sales, the Company earns auction fees charged to consignees, and buyer's premiums charged to purchasers, determined as a percentage of the sale price. For inventory sales, the Company earns a profit or incurs a loss on the sale, to the extent the purchase price exceeds or is less than the purchase price paid for such inventory.

For each type of auction revenue, an invoice is rendered to the purchaser, and revenue is recognized by the Company, at the date of the auction. The auction purchase creates a legal obligation upon the purchaser to take possession of, and pay for the merchandise. This obligation generally provides the Company with reasonable assurance of collection of the sale proceeds, from which the Company's earnings are derived, including the fees from consignees and purchasers, as well as resale profits.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company believes its revenue recognition policies do not significantly differ from those outlined in SAB 101.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### j) Trademark

The cost of a trademark acquired is being amortized on a straight-line basis over its life of fifteen years.

#### k) Acquisitions and Goodwill

All business acquisitions have been accounted for under the purchase method and, accordingly, the excess of the purchase price over the fair value of the net assets acquired has been recorded as goodwill in the consolidated balance sheet. The results of operations, changes in equity and cash flows of acquired companies are included in operations only for the period between the date of acquisition and the end of the financial year.

Goodwill arising from acquisitions of businesses prior to July 1, 2001 is amortized on a straight-line basis over periods ranging from three

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to twenty years.

Goodwill arising from acquisitions of businesses after June 30, 2001 has been accounted for under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. Instead, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test.

### l) Loss per share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). Under SFAS 128, basic and diluted earnings per share are to be presented. Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares.

### m) Income taxes

Income taxes are provided in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and net operating loss carryforwards. Deferred tax expense (benefit) results from the net change during the year of deferred tax assets and liabilities.

Deferred tax assets are reduced by a valuation allowance when, based upon currently available information, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

### n) Segment information

Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information", establishes standards for reporting information about the operating and geographic segments of the Company's business. Currently, the nature and extent of the Company's operations are such that it operates in only one reportable segment, as an auction house and liquidator. Information regarding the Company's geographic segments is set forth in Note 18.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

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Unaudited

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### o) Stock-based compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee is required to pay for the stock.

#### p) Accounting for derivative instruments and hedging activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS 137 to defer the effective date of SFAS 133 to fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not believe that the adoption of the statement has a significant impact on its financial statements.

#### q) Generally accepted accounting principles

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, comprehensive loss, changes in stockholders' equity and cash flows at September 30, 2001 and for the period then ended have been made. These financial statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2000. The results of operations for the period ended September 30, 2001 are not necessarily indicative of the results to be expected for the year ending December 31, 2001.

#### r) Comparative figures

Certain of the figures for the nine month period ended September 30, 2000 have been reclassified to conform to the presentation adopted for the 2001 period.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

4. NOTE RECEIVABLE

The Company made a loan in the amount of \$100,000 to an employee during the 2000 year. An agreement between the borrower and Able Auctions (1991) Ltd. provides that the loan is due and payable on July 2, 2003, bears interest at a rate of 4% per annum from July 2, 2000 until the maturity date, and is secured by a charge on certain real property of the borrower.

5. CAPITAL ASSETS

	September 30, 2001			December 31, 2000
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 800,000	\$ -	\$ 800,000	\$ 800,000
Building	1,082,605	32,445	1,050,160	1,081,500
Furniture and fixtures	221,429	89,037	132,392	84,400
Computer equipment	1,292,601	531,018	761,583	660,600
Computer software	152,365	77,858	74,507	93,500
Vehicle	90,031	45,381	44,650	61,300
Leasehold improvements	285,898	28,204	257,694	275,900
	\$ 3,924,929	\$ 803,943	\$ 3,120,986	\$ 3,057,500
	\$ 3,924,929	\$ 803,943	\$ 3,120,986	\$ 3,057,500

6. WEB SITE DEVELOPMENT COSTS

Web site development costs of \$45,670 (net of amortization costs of \$97,997) (December 31, 2000: \$86,353) is comprised of hardware and software costs incurred by the Company in developing its web site. The Company amortizes these costs over a period of five years from the commencement of operations of the web site.

7. GOODWILL

	Gross	Accumulated Amortization	September 30, 2001 Net	December 31, 2000 Net
Goodwill	\$ 9,222,273	\$ 262,517	\$ 8,959,756	\$ 1,050,902
	\$ 9,222,273	\$ 262,517	\$ 8,959,756	\$ 1,050,902

ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

8. ACQUISITIONS AND DIVESTITURES

Following is a description of the Company's more significant business acquisitions and divestitures:

- a) Effective August 24, 1999, the Company acquired all of the issued shares and certain loans of Able Auctions (1991) Ltd. ('Able'). The Company issued 1,843,444 of its common shares at an aggregate deemed value of \$73,738, and paid cash of \$545,305 to acquire the shares of Able, and paid additional cash of \$504,695 for shareholders' loans, for a total purchase price of \$1,123,738. The \$667,127 excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill.
- b) Effective February 29, 2000, the Company acquired certain assets of a business operating as Falcon Trading Inc. The Company issued 53,405 shares of common stock at an aggregate deemed value of \$360,805, representing the total purchase price. The \$245,000 excess of the purchase price over the fair value of the assets acquired was recorded as goodwill.
- c) Effective March 20, 2000, the Company acquired land and a building in Scottsdale, Arizona. The Company issued 155,486 shares of common stock at an aggregate deemed value of \$1,243,888, paid cash of \$1,200,000, and assumed a promissory note liability of \$1,056,112, for a total purchase price of \$3,500,000.
- d) Effective March 20, 2000, the Company acquired certain assets of a business operating as Meslers Auction House L.L.C. The Company issued 30,625 shares of common stock at an aggregate deemed value of \$245,000 and paid cash of \$255,000, for a total purchase price of \$500,000. The \$471,000 excess of the purchase price over the fair value of the assets acquired was recorded as goodwill.
- e) Effective May 5, 2000, the Company acquired certain assets of a business operating as Auctions West Sales Corporation. The Company issued 10,000 shares of common stock at an aggregate deemed value of \$70,000, representing the total purchase price. The \$70,000 excess of the purchase price over the fair value of the assets acquired was recorded as goodwill.
- f) Effective May 16, 2000, the Company acquired all of the issued shares of Ehli's Commercial/Industrial Auctions, Inc. The Company issued 50,000 shares of common stock at an aggregate deemed value of \$350,000 and paid cash of \$900,000, for a total purchase price

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of \$1,250,000. The \$1,195,286 excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill.

- g) Effective July 26, 2000, the Company acquired all of the issued shares of Johnston's Surplus Office Systems Ltd. The Company issued 68,182 shares of common stock at an aggregate deemed value of \$513,410 and paid cash of \$338,300, for a total purchase price of \$851,710. The \$551,168 excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill.
- h) Effective July 31, 2000, the Company acquired all of the issued shares of Warex Supply Ltd. The Company issued 6,900 shares of common stock at an aggregate deemed value of \$55,200 and paid cash of \$146,800, for a total purchase price of \$202,000. As the purchase price did not exceed the fair value of the net assets acquired, no goodwill was recorded.
- i) Effective July 31, 2000, the Company acquired all of the issued shares of Jarvis Auctions Ltd. The Company paid cash of \$288,000, representing the total purchase price. The \$219,900 excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

### 8. ACQUISITIONS AND DIVESTITURES (continued)

- j) Effective March 29, 2001, the Company agreed to dispose of all of its shares of Johnston's Surplus Office Systems Ltd. ('Surplus').

The Company also agreed to settle debt owed to the Company by Surplus in the amount of \$1,191,724. The debt was settled by the issuance by Surplus to the Company of 1,191,724 common shares of Surplus at a deemed price of \$1.00 per share.

The Company agreed to then sell all of the issued shares of Surplus to an employee of Surplus, for consideration of Cdn\$600,000 (US\$ 380,500).

The purchase price is to be paid as follows:

- (a) Cash of Cdn\$75,000 (US\$47,568) due on the closing date of March 31, 2001.
- (b) Cash of Cdn\$125,000 (US\$79,280) payable as to Cdn\$3,472 (US\$2,202) per month for three years after the closing date,



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without interest, evidenced by a promissory note and secured by the pledge and escrow to the Company of the shares.

- (c) An amount of Cdn\$400,000 (US\$253,696) payable by the provision to the Company of goods or services of Surplus at an agreed discount.

The proceeds described in (a) and (b) have been recorded as at the effective date of sale. The benefit, if any, derived by the Company from the discount described in (c) will be reflected in the gross profit of the Company as earned.

The carrying values of assets and liabilities of Surplus that were sold were as follows:

Cash	\$	24,361
Goodwill		200,000
Other assets		569,868
Liabilities		(236,299)
		-----
	\$	557,930

The revenues and expenses of Surplus until the date of disposition have been presented as discontinued operations.

- k) The Company completed an agreement in April of 2001 under which it agreed to transfer inventory and accounts receivable of the business acquired as described in Note 8(b) to the original seller, in return for the net proceeds of a future sale of the 53,405 shares of common stock of the Company issued in conjunction with the original purchase

The amount of net proceeds to the Company and the dollar amount of assets sold have yet to be finalized. Any gain or loss associated with the sale will be recorded once this determination is made.

- l) Effective August 31, 2001, the Company agreed to dispose of all of its shares of Warex Supply Ltd. ('Warex') to an employee for total consideration of \$1.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

### 8. ACQUISITIONS AND DIVESTITURES (continued)

The carrying values of assets and liabilities of Warex that were sold were as follows:

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Accounts receivable	\$	28,361
Inventory		65,465
Other assets		33,127
Liabilities		(25,707)
		-----
		\$ 101,246

The Company recognized a loss of \$101,245 on the sale.

The revenues and expenses of Warex until the date of disposition have been presented as discontinued operations.

- m) On August 13, 2001, the Company made an offer to acquire all of the issued shares of iCollector PLC ("iCollector"). Effective September 27, 2001, all conditions of the offer had been satisfied.

The purchase price to be paid is as follows:

- (a) The Company will issue 4,150,000 shares of its common stock to the shareholders of iCollector. At September 30, 2001 an amount has been recorded as Shares to be Issued, based on a value of \$5,921,660, net of filing fees of \$12,840. The Company is in the process of issuing these shares to the consenting shareholders and has issued notice to the non-consenting shareholders of compulsory acquisition by November 20, 2001.
- (b) The Company has issued non-interest bearing and unsecured promissory notes ("deferred consideration notes") in the face amount of \$3,000,000, which are due to be repaid September 13, 2002. These deferred consideration notes are convertible into shares of common stock of the Company at \$1.43 per share at the sole option of the Company, subject to regulatory, listing, and shareholder approval.

The deferred consideration notes have been recorded at estimated fair market value based on an implicit interest rate of 12%, such that an unamortized discount to face value of \$310,000 has been recorded at September 30, 2001.

- (c) The Company has also issued non-interest bearing and unsecured promissory notes ("earnout consideration notes") in the amount of \$5,000,000, which are payable on September 30, 2002, only if iCollector satisfies certain revenue and transaction milestones during the month of July, 2002. These earnout consideration notes are convertible into shares of common stock of the Company, at the fair market value of such shares at the date of conversion, at the sole option of the Company, subject to a minimum of 2,000,000 shares and a maximum of 3,500,000 shares in aggregate, as well as regulatory, listing, and shareholder approval. The amount of the obligation to the Company in respect to the earnout consideration notes, if any, will be recorded at such time as the amount of such obligation can be reasonably determined.

The total recorded cost to the Company of the acquisition including estimated transaction costs of \$345,582, was \$8,957,242. The excess of the cost to the Company over the fair value of the net assets acquired, in the amount of \$8,327,218,

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was recorded as goodwill.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

8. ACQUISITIONS AND DIVESTITURES (continued)

The operating results of the combined companies on a proforma basis, under the assumption that the combination occurred at the beginning of the 2001 year are as follows:

	Ableauctions.com	iCollector	Consolidated
	-----	-----	-----
Revenues	\$ 7,656,644	\$ 227,622	\$ 7,884,266
Expenses	(9,209,980)	(5,950,567)	(15,160,547)
	-----	-----	-----
	\$ (1,553,336)	\$ (5,722,945)	\$ (7,276,281)
	=====	=====	=====

9. PROMISSORY NOTE

	September 30, 2001	December 2000
	-----	-----
Promissory note, with interest at 9% per annum, repayment at \$8,569 per month including principal and interest, secured by mortgage over land and building, due July 24, 2028	\$ 1,044,969 \$ 1,052,171	
Less: current portion	(9,058)	(8,000)
	-----	-----
	\$ 1,035,911	\$ 1,043,911

10. CAPITAL STOCK

a) On September 2, 1998, the Company implemented a 200:1 forward stock split. On July 20, 1999, the Company effected a stock dividend of four shares for every one share of record. On July 21, 1999, the Company implemented a 5:1 forward stock split and on September 5, 1999, the Company implemented a 4:1 reverse stock split. The consolidated statement of changes in stockholders' equity for the 1999 year was restated to give retroactive recognition to the stock splits and stock dividend presented by reclassifying from common stock to additional paid-in capital the

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par value of consolidated shares arising from the splits and stock dividend. In addition, all references to number of shares and per share amounts of common stock were restated to reflect the stock splits.

- b) In March, 1999, the Company issued 53,750,000 shares at an aggregate deemed value of \$8,600 as payment of fees for services received.
- c) In April, 1999, the Company issued 5,312,500 shares at an aggregate deemed value of \$850 as payment of fees for services received.
- d) In July, 1999, the Company received from a shareholder 50,000,000 shares which were previously issued for services rendered, and returned these shares to treasury for cancellation.
- e) In August, 1999, the Company completed a private placement whereby it issued 1,094,057 post-consolidation units at a price of \$3.20 per unit for total consideration in the amount of \$3,500,980. Each unit consists of one restricted common share and half of a share purchase warrant. Each whole warrant will entitle the holder to purchase an additional restricted common share at a price of \$4.00 per share until August 24, 2001.
- f) In October, 1999, the Company issued 60,000 shares at an aggregate deemed value of \$168,000 for the purchase of certain assets of Ross Auctioneers & Appraisers Ltd.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

### 10. CAPITAL STOCK (continued)

- g) In February, 2000, the Company issued 53,405 shares of common stock at an aggregate deemed value of \$360,805 to purchase certain assets of Falcon Trading Inc.
- h) In March, 2000, the Company completed a private placement of 1,000,000 units at a price of \$5.00 per unit for total proceeds of \$4,700,000, net of issuance costs of \$300,000. Each unit consists of one share of common stock and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional share of common stock at a price of \$5.00 per share until March 25, 2001 and at a price of \$6.00 per share until March 25, 2002.
- i) In March, 2000, the Company issued 155,486 shares of common stock at an aggregate deemed value of \$1,243,888 as partial consideration for the purchase of a building and land in

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Scottsdale, Arizona.

- j) In March, 2000, the Company issued 30,625 shares of common stock at an aggregate deemed value of \$245,000 as partial consideration for the purchase of certain assets of Mesler's Auction House Ltd.
- k) In April, 2000, the Company issued 4,822 shares of common stock at an aggregate deemed value of \$34,478 as partial consideration for acquiring certain trademark rights from Simon Fraser University.
- l) In May, 2000, the Company completed a private placement of 1,210,240 units at a price of \$5.00 per unit for total proceeds of \$5,203,440, net of issuance costs of \$847,670. Each unit consists of one share of common stock and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional share of common stock at a price of \$6.00 per share until April 28, 2001.
- m) In May, 2000, the Company issued 10,000 shares of common stock at an aggregate deemed value of \$350,000 as partial consideration for the purchase of Ehli's Commercial/Industrial Auctions Inc.
- n) In May, 2000, the Company issued 50,000 shares of common stock at an aggregate deemed value of \$350,000 as partial consideration for the purchase of Ehli's Commercial/Industrial Auctions Inc.
- o) In July, 2000, the Company issued 68,182 shares of common stock at an aggregate deemed value of \$513,410 as partial consideration for the purchase of Johnston's Surplus Office Systems Ltd.
- p) In July, 2000, the Company issued 6,900 shares of common stock at an aggregate deemed value of \$55,200 as partial consideration for the purchase of Warex Supply Ltd.

### 11. WARRANTS

The following warrants were outstanding at September 30, 2001:

Year Granted	Number of Shares	Subscription Price	Expiry Date
2000	1,000,000	\$ 6.00	March 25, 2001

During the nine month period ended September 30, 2001, 150,000 warrants with a subscription price of \$8.00, 1,210,240 warrants with a subscription price of \$6.00, and 547,029 warrants with a subscription price of \$4.00 expired.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

12. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	Nine Month Period Ended September 30, 2001	Nine Month Period Ended September 30, 2000
	-----	-----
Cash paid for income taxes	\$ 3,148 =====	\$ - =====
Cash paid for interest	\$ 84,045 =====	\$ 35,294 =====

The following non-cash operating, investing and financing transactions occurred during the nine month period ended September 30, 2001:

- a) The Company issued deferred compensation notes in the face amount of \$3,000,000, earn out consideration notes in the amount of \$5,000,000, and incurred an obligation to issue 4,150,000 shares of common stock at an aggregate value of \$5,934,500 as proceeds for the purchase of shares of iCollector PLC as described in Note 8 (m).
- b) The Company received a promissory note in the amount of \$79,280 as partial proceeds for the sale of its shares of Johnston's Surplus Office Systems Ltd. as described in Note 8(j).

The following non-cash operating, investing and financing transactions occurred during the nine month period ended September, 2000:

- a) The Company issued 155,486 shares of common stock at a deemed value of \$1,243,888 and assumed a promissory note in the amount of \$1,056,112 for the purchase of a building and land in Scottsdale, Arizona for the purchase of a building and land in Scottsdale, Arizona.
- b) The Company issued 53,405 shares of common stock at a deemed value of \$360,805 to purchase the assets of Falcon Trading Inc.
- c) The Company issued 30,625 shares of common stock at a deemed value of \$245,000 to purchase the assets of Mesler's Auction House.
- d) The Company issued 4,822 shares of common stock at an aggregate deemed value of \$34,478 to acquire rights to a trademark from Simon Fraser University.
- e) The Company issued 10,000 shares of common stock at an aggregate deemed value of \$70,000 to purchase certain assets of Auctions

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West Sales Corporation.

- f) The Company issued 50,000 shares of common stock at an aggregate deemed value of \$350,000 as partial consideration for the purchase of Ehli's Commercial/Industrial Auctions Inc.
- g) The Company issued 68,182 shares of common stock at an aggregate deemed value of \$513,410 as partial consideration for the purchase of Johnston's Surplus Office Systems.
- h) The Company issued 6,900 shares of common stock at an aggregate deemed value of \$55,200 as partial consideration for the purchase of Warex Supply Ltd.

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### ABLEAUCTIONS.COM, INC.

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

#### 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Total comprehensive losses for the nine month periods ended September 30, 2001 and 2000 were \$1,571,840 and \$4,206,256 respectively. The only item included in other comprehensive loss is foreign currency translation adjustments in the amounts of a \$18,504 loss for the nine month period ended September 30, 2001 and a \$11,444 loss for the nine month period ended September 30, 2000.

	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income
	-----	-----
Balance, December 31, 1999	\$ 11,445	\$ 11,445
Change During Period	(11,444)	(11,444)
	-----	-----
Balance, September 30, 2000	\$ 1	\$ 1
	=====	=====
Balance, December 31, 2000	\$ (21,298)	\$ (21,298)
Change During Period	(18,504)	(18,504)
	-----	-----
Balance, September 30, 2001	\$ (39,802)	\$ (39,802)
	=====	=====

#### 14. INCOME TAXES

- a) The Company's total deferred tax asset is as follows:

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	September 30, 2001
Tax benefit relating to net operating loss carryforwards and temporary timing differences	\$ 3,821,169
Valuation allowance	(3,821,169)
	-----
	\$ -
	=====

The Company has net operating losses carried forward of approximately \$8,000,000 which expire in years ranging from 2006 to 2020. The Company has provided a full valuation allowance on the deferred tax asset because of the uncertainty of realizability.

- b) Following is a reconciliation of expected and actual income tax benefit, using the applicable statutory income tax rates for the nine month period ended September 30, 2001

Expected tax benefit	\$ 559,201
Certain non-deductible expenses	(248,393)
Change in valuation allowance	(310,808)
	-----
	\$ -
	=====

15. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2001 the following related party transactions occurred:

- a) The Company paid rent of \$104,859 to a company controlled by a director of the Company.
- b) Included in accounts payable is an amount of \$94,950 owing to a company controlled by a director of the Company.

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

15. RELATED PARTY TRANSACTIONS (continued)

- c) Included in accounts payable is an amount of \$54,438 owing



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to a director of the Company with respect to accrued wages expensed during the 2000 year.

During the nine month period ended September 30, 2000, the following related party transactions occurred:.

a) The Company paid \$24,474 in consulting fees to companies controlled by a director of the Company.

b) The Company paid \$216,081 in rent, leasehold improvements, and repairs and maintenance to a company controlled by a director of the Company.

c) The Company had sales of goods of \$52,854 to companies controlled by a director of the Company.

d) The Company paid \$25,789 for web site development costs to a company controlled by a director of the Company.

### 16. STOCK BASED COMPENSATION EXPENSE

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, compensation cost for stock options is measured as the excess, if any, of quoted market price of the Company's stock at the date of grant over the option price.

During the 2000 year, compensation costs of \$640,108 were incurred based on options granted. These costs will be recognized over a period of three years, which is the average vesting period of options.

During the nine month period ended September 30, 2001, stock based compensation expense of \$157,653 was recognized in the consolidated statement of operations.

A summary of the Company's stock option plan and changes during 2001 and 2000 are presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding, at December, 31, 1999	812,500	\$ 3.20
Granted	694,500	6.95
Forfeited	(42,500)	5.22
Exercised	(77,000)	4.60
Outstanding, at December 31, 2000	1,387,500	\$ 4.94
Granted	-	-
Forfeited	(105,000)	7.11
Exercised	-	-

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Outstanding, at September 30, 2001	1,282,500	\$ 4.76
Weighted average fair value of options granted during the period	=====	=====
		\$ -
		=====

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

16. STOCK BASED COMPENSATION EXPENSE (continued)

The following table summarizes information about employee and director stock options outstanding and exercisable under the Company's stock incentive plans at September 30, 2001:

Exercise Price	Weighted Number Outstanding	Average Remaining Contractual Life	Number Exercisable
\$ 3.20	788,000	3.3	717,000
5.00	22,500	3.6	22,500
7.15	50,000	3.9	10,000
6.53	20,000	3.9	6,667
6.53	80,000	3.9	-
7.00	75,000	4.1	25,000
7.00	120,000	4.1	30,000
8.50	15,000	4.1	5,000
8.66	112,000	4.1	37,333
	-----		-----
	1,282,500		853,500
	=====		=====

Compensation

Had compensation cost been recognized on the basis of fair value, pursuant to Statement of Financial Accounting Standards No. 123, net loss and loss per share would have been adjusted as follows:

Three Month Period Ended September 30, 2001	Three Month Period Ended September 30, 2000	Nine Month Period Ended September 30, 2001
-----	-----	-----

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Loss for the period			
As reported	\$ (705,950)	\$ (1,466,628)	\$ (1,553,336)
	=====	=====	=====
Pro forma	\$ (952,189)	\$ (1,586,906)	\$ (2,292,051)
	=====	=====	=====
Basic and diluted loss per share			
As reported	\$ (0.03)	\$ (0.07)	\$ (0.07)
	=====	=====	=====
Pro forma	\$ (0.05)	\$ (0.08)	\$ (0.11)
	=====	=====	=====

The fair value of each option was estimated using the Black-Scholes Option Pricing Model.

The assumptions used in calculating fair value were as follows:

	2001	2000
	-----	-----
Dividend Yield	-	-
Expected Volatility	60% - 126%	189%
Risk Free Interest Rates	6.0% - 6.7%	6.23%
Weight Average Expected Option Terms	2 to 5 years	2 years

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ABLEAUCTIONS.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001

Unaudited

17. COMMITMENTS

- a) The Company leases office space and equipment under non-cancelable operating leases extending for periods in excess of one year. Future commitments under such lease agreements are as follows:

2001	\$ 145,934
2002	426,665
2003	183,906
2004	171,996
2005	152,796
Thereafter	598,451
	-----
	\$ 1,679,748
	=====

Included in these totals are amounts with respect to an agreement made by the Company effective November 1, 2000 with a company controlled by a director of the Company, to lease operating

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premises in Coquitlam, British Columbia. Under the agreement, the Company must make lease payments of \$12,840 per month, plus operating costs, until November 30, 2009.

- b) Future commitments pursuant to the promissory note described in Note 9 are as follows:

2001	\$	1,277
2002		9,273
2003		10,145
2004		11,097
2005		12,138
Thereafter		1,001,039
		-----
	\$	1,044,969
		=====

- c) The Company maintains employment agreements with various key management personnel.

### 18. INTERNATIONAL OPERATIONS

The external sales and long-lived assets of the Company's businesses by geographical region are summarized below:

	Nine Month Period Ended September 30, 2001	Nine Month Period Ended September 30, 2000
	-----	-----
External sales from continuing operations:		
United States	\$ 2,678,330	\$ 3,531,410
Canada	4,950,892	4,008,235
United Kingdom	27,422	-
	-----	-----
	\$ 7,656,644	\$ 7,539,645
	=====	=====
	September 30, 2001	December 31, 2000
	-----	-----
Long-lived assets of continuing operations:		
United States	\$ 2,358,270	\$ 2,756,222
Canada	1,192,758	1,549,202
United Kingdom	8,684,662	-
	-----	-----
	\$ 12,235,690	\$ 4,305,424
	=====	=====

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#### NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain information contained herein constitutes "forward-looking statements," including without limitation statements containing the words "believes,"

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"anticipates," "intends," "expects" and words of similar import, as well as all projections of future results. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or achievements of the Registrant to be materially different from any future results or achievements of the Registrant expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following: risks related to political and economic uncertainties; risks related to the Registrant's acquisition strategy and its ability to integrate acquired businesses into its operations; risks involved in implementing a new business strategy; risk related to the operations of iCollector and its operations in Europe; the Registrant's ability to obtain financing on acceptable terms; competition in the auction industry; market acceptance of live auction broadcasts on the Internet; the Registrant's ability to manage growth and integrate the operations of acquired auction houses; risks of technological change; the Registrant's dependence on key personnel; the Registrant's dependence on marketing relationships with auction houses and third party suppliers; the Registrant's ability to protect its intellectual property rights; government regulation of Internet commerce and the auction industry; economic factors affecting the sales of auction merchandise; dependence on continued growth in use of the Internet; risk of technological change; capacity and systems disruptions; uncertainty regarding infringing intellectual property rights of others and the other risks and uncertainties described under "Description of Business - Risk Factors" in the Registrant's annual report on Form 10-KSB.

The Registrant's management has included projections and estimates in this quarterly report, which are based primarily on management's assessment of the Registrant's results of operations, discussions and negotiations with third parties, management's experience and a review of information filed by its competitors with the Securities and Exchange Commission. Investors are cautioned against attributing undue certainty to management's projections.

### ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

We auction merchandise and equipment from a variety of industries including: antique, automotive, bakery, broadcasting, chemical, construction, dairy, electronics, energy, food processing, foundry, furniture, high-technology, machine tool, metal fabrication, office, paper, pharmaceutical, plastic, printing, restaurant, textile, and others. Our auctions are open to the public. Our typical auction draws approximately 300 to 500 bidders in person and offers on average approximately 1,200 items or lots of merchandise and equipment for auction. Bidders are generally businesses and commercial purchasers. We broadcast certain of our live auctions over the Internet on our web site. In auctions that we broadcast, our physical "brick-and-mortar" auction audiences are integrated with our Web-based online auction audiences, and our online customers are able to bid on and buy merchandise at our live auctions. We generally earn gross profit margins ranging from 16% to 40% on goods we hold title to and sell at our physical auctions. We cannot assure you that we will attain any particular level of gross profit margins or that we will achieve profitability.

Our business strategy is to increase the gross revenues and profitability of our existing auction operations by expanding the scope of our auction audience through the capabilities of the Internet.

We broadcasted our first live auction on our web site in January, 2000. We currently broadcast approximately 20% of our auctions over the Internet using software we developed internally. We are in the process of refining our software

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to minimize the amount of human intervention required for broadcasting our auctions over the Internet.

We are an early stage company and we have developed our business through the acquisition, by either share purchase or asset purchase, of Able Auctions (1991), Ross Auctioneers & Appraisers, Auctions West, Johnston's Surplus Office Systems, Jarvis Industries and Warex Supply, all in British Columbia, Canada, and Falcon Trading and Ehli's Auctions in Washington State, and Mesler's Auction House in Arizona. Before these acquisitions, we had no material business and no material revenues, expenses, assets or liabilities.

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On September 27, 2001, we acquired iCollector PLC, a company that provides an indexed catalogue of art, antiques and collectibles to auction houses, dealers, and galleries. iCollector also broadcasts live auctions over the Internet in conjunction with eBay Live auctions. Our acquisition is expected to expand our presence on the Internet and to diversify our business and product offerings. See "Item 5. Other Information."

All of our subsidiaries were acquired in the second or third quarter of 2000, except for Ableauctions (1991) Ltd., which was acquired in the last quarter of 1999 and iCollector PLC, which we acquired late in the third quarter 2001. The companies we acquired were typically owner-operated businesses, and the major internal controls over spending, inventory, and assets were generally the oversight of the owner. Consequently, when we acquired these companies, we implemented many internal controls and operating procedures. As with most consolidations or mergers of related-business companies, we incurred significant costs to implement our inventory procurement model, operational strategy and administrative and accounting procedures. Many of the write-downs in the value of our assets were realized as a result of changing accounting systems and policies of the newly acquired businesses and recognizing the true value of their assets. These write-downs, such as bad debts, inventory and goodwill are expected to be non-recurring.

Throughout the year 2000, we also implemented our business plan and strategy of developing a platform to conduct auctions live over the Internet. As a result, we expended significant funds on developing the actual website and software, organizing a management team to market and develop the programs, and marketing our software in North America. During the fourth quarter 2000, we hired marketing personnel in an effort to license our technology to auction houses and to market our Internet capabilities and broadcasting services.

During the third quarter 2001, Levy Gee, our U.K. financial advisor, commenced a recommended offer to acquire iCollector PLC, a company that provides an indexed catalogue of art, antiques and collectibles to auction houses, dealers, and galleries. iCollector also broadcasts live auctions over the Internet in conjunction with eBay Live auctions. Our acquisition is expected to expand our presence on the Internet and to diversify our business and product offerings. See "Item 5. Other Information." Our offer to acquire iCollector was subject to a number of conditions, including the approval of iCollector shareholders of a restructuring and financing and acceptance of our offer by at least 90% of the iCollector shareholders. The offer was declared unconditional in all respects on September 27, 2001, the first closing date of the offer. Our offer was accepted by shareholders holding approximately 96% of the iCollector ordinary shares. We are in the process of compulsory acquisition of the remaining iCollector shares, which is anticipated to close on November 20, 2001.

We cannot assure you that we will be able to effectively integrate the iCollector business into our operations.

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### Results of Operation

Three months ended September 30, 2001 compared to the corresponding period in 2000.

Revenues. During the three months ended September 30, 2001, we had net auction revenues of \$2,107,732, compared to \$3,823,886 during the same period in 2000, a decrease of \$1,716,154 (approximately 44.9%). Sales of goods were \$1,196,605 or approximately 56.8% of our revenues during the three month period ended September 30, 2001, compared to \$3,356,955 or approximately 87.8% during the same period in 2000. In the third quarter of 2000, we acquired certain auction houses that realize revenue mainly on a commission basis. The decrease in revenues and the revenues resulting from sales of goods as a percentage of revenue in 2001 is a direct result of combining the auction houses that sell inventory mainly on a commission basis with the auction houses that sell mainly purchased inventory.

Operating Expenses. During the three month period ended September 30, 2001, operating expenses were \$1,647,582 (78.2% of revenue), compared to \$2,592,596 (67.8% of revenue) for the same period in 2000. The operating costs in the third quarter of 2001 were lower than 2000 as additional expenses were incurred in 2000 to build the infrastructure, management team, and Internet technology and as we began to realize the synergies and benefits of consolidating the administrative functions of the auction houses we acquired and of implementing inventory and management controls.

Personnel and consulting expenses were \$645,374 during the three-month period ended September 30, 2001 (2000 - \$1,200,475) or 39.2% (2000 - 46.3%) of our operating expenses and consisted of expenses related to salaries and

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benefits \$545,134 (2000 - \$1,078,587), consulting and management fees \$69,505 (2000 - \$30,349), and commissions \$30,735 (2000 - \$91,539). We anticipate that our acquisition of iCollector will significantly increase our personnel and consulting expenses as a result of adding approximately 23 iCollector employees. We also anticipate that such personnel and consulting expenses will increase as (i) we hire additional personnel for our auction houses, (ii) we expand our operations, and (iii) we increase the frequency and number of auctions that we conduct.

During the three-month period ended September 30, 2001, advertising and promotion expenses were \$248,811 (2000 - \$337,254) or 15.1% (2000 - 13%) of our operating expenses. Advertising expenses were lower in comparison to 2000, even as our operations have been expanded through acquisitions as a result of increased efficiency in marketing and promoting our auctions. We also incurred significant advertising expenses in developing our new auction businesses in Scottsdale, Arizona and San Mateo, California. We anticipate that the total dollar amount of promotion expenses will remain constant throughout the remainder of 2001.

General overhead expenses related to rent and utilities \$217,355 (2000 - \$198,978), telephone \$44,714 (2000 - \$61,096), travel related to operations \$19,847 (2000 - \$132,419), repairs and maintenance \$41,333 (2000 - \$68,755), automotive \$15,936 (2000 - \$21,755), insurance \$39,537 (2000 - \$42,455) and office and administrative expenses \$132,503 (2000 - \$122,705).

We anticipate that general overhead expenses will increase as a result of our acquisition of iCollector. We anticipate that overhead as a percentage of operating expenses and total revenue will decrease in future periods after we

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successfully integrate certain administrative aspects of iCollector's operations and as we achieve certain economies from our operations. The total dollar amount of general overhead expenses is expected to increase as we expand our operations and, specifically, as a result of the acquisition of iCollector PLC.

Professional fees were \$17,205 (2000 - \$113,586) during the three-month period ended September 30, 2001. The professional fees related to completing our Securities Exchange Act of 1934 reports, and professional fees associated with our acquisition of iCollector. Professional fees are expected to increase during the fourth quarter of 2001 as a result of accrued, legal, accounting and financial advisor expenses anticipated to occur as a result of our acquisition of iCollector.

Depreciation and amortization expense was \$96,624 (2000 - \$176,888) for the three-month period ended September 30, 2001. Amortization of goodwill for the period was \$72,789 compared to \$38,573 for the corresponding period in the prior year.

Gross Profit. Cost of revenues was \$1,103,449 (2000 - \$2,670,315) for the three-month period ended September 30, 2001. Gross profits were \$1,004,284 (2000 - \$1,153,371) or 47.6% (2000 - 30.2%). Until we developed our inventory procurement model, normal gross margins were approximately 25% overall. We believe gross profits on our physical auctions may improve further in future periods as we realize the benefits of our inventory procurement model and as we implement a strategy of buying large quantities of discount merchandise and distributing this merchandise to our various outlets for sale at our auctions.

Operating Income and Net Loss. For the quarter ended September 30, 2001, we realized a loss from operations of \$607,849 (2000 - loss of \$1,466,628). We realized an overall net loss for the quarter of \$705,950 (2000 - \$1,466,628) or \$0.03 (2000 - \$0.07) per share.

In order to pursue our business model and market our live broadcasting software to the auction houses throughout North America, we intend to continue the development of our Internet technologies and business development efforts during the fourth quarter of 2001 and first half of 2002. During the second quarter 2001, we invested in computer hardware and software and hired additional programmers. We expect to continue the development of the internet and auction software throughout the remainder of 2001.

During the fiscal year 2000, we acquired all of the issued and outstanding shares of Johnson's Surplus Office Systems ("Surplus"). We then combined the profitable components of Surplus with our operating auction and liquidation houses in Seattle, Washington, Surrey, British Columbia, and San Mateo, California. Since the remaining division of Surplus was engaged in the business of manufacturing and refurbishing office systems, which was inconsistent with our business strategy, we elected to sell Surplus to its management. Consideration for the

purchase of Surplus was \$75,000 cash plus the issuance of a promissory note of \$125,000 secured by a personal guarantee, and an agreement to supply products to us totalling an additional \$400,000.

Late in the third quarter 2001, we acquired iCollector PLC to further expand our Internet presence and to develop a market in Europe. We anticipate that we will experience losses, on a consolidated basis, as a result of our investments in the development of our Internet-related business and our acquisition of iCollector PLC. We expect to incur losses in the fourth quarter and into 2002



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and we anticipate we will require additional financing to expand the development and marketing of our Internet technology. If we are unable to obtain additional financing, we may be required to suspend all Internet technology development and marketing, which may have a materially adverse affect on the growth of our business.

Nine months ended September 30, 2001 compared to the corresponding period in 2000.

Revenues. During the nine months ended September 30, 2001, we had net auction revenues of \$7,656,644, compared to \$7,539,645 during the same period in 2000, an increase of \$116,999 (approximately 1.6%). Sales of goods were \$4,976,385 (65%) of our revenues during the nine months period ended September 30, 2001, compared to \$6,526,462 (86.6%) during the same period in 2000. In the third quarter of 2000, we acquired certain auction houses that realize revenue mainly on a commission basis. The decrease in the revenues resulting from sales of goods as a percentage of revenue in 2001 is a direct result of combining the auction houses that sell inventory mainly on a commission basis with the auction houses that sell mainly purchased inventory. We anticipate that revenues from the sales of goods may increase as a percentage of revenues, as we plan to conduct a greater number of auctions using inventory we purchase in buy-out situations, which generally result in higher gross profit margins.

Late in the third quarter 2001, we acquired iCollector, which operates a website that catalogues arts, collectibles and antiques for auction houses, galleries and dealers and conducts live auctions on eBay. iCollector's revenue model is designed to generate income from commissions charged to buyers and sellers. We anticipate that revenues from iCollector's operations will increase our total revenues marginally in future periods until we are able to fully integrate iCollector's operations and increase the number of auctions broadcast over the Internet

Operating Expenses. During the nine months period ended September 30, 2001, operating expenses were \$5,067,035, compared to \$6,291,015 for the same period in 2000.

Personnel and consulting expenses were \$2,191,817 during the nine-month period ended September 30, 2001 (2000 - \$2,555,231) or 43.3% (2000 - 40.6%) of our operating expenses and consisted of expenses related to salaries and benefits \$1,841,675 (2000 - \$1,956,363), consulting and management fees \$261,119 (2000 - \$389,377), and commissions \$89,023 (2000 - \$209,491). We increased our number of employees by approximately 20 as a result of our acquisition of iCollector. We anticipate that personnel and consulting expenses will increase as a result of the iCollector acquisition and as (i) we hire additional personnel for our internet and auction software development, (ii) we expand our operations, and (iii) we increase the frequency and number of auctions that we conduct.

During the nine-month period ended September 30, 2001, advertising and promotion expenses were \$783,399 (2000 - \$681,906) or 15.5% (2000 - 10.8%) of our operating expenses. Advertising expenses were higher in comparison to 2000, as our operations were expanded through acquisitions. We also incurred significant advertising expenses in developing our new auction businesses in Scottsdale, Arizona and San Mateo, California. We anticipate that the total dollar amount of promotion expenses to remain constant in 2001. We anticipate advertising expenses may increase further as we actively promote the iCollector business.

General overhead expenses related to rent and utilities \$606,610 (2000 - \$614,040), telephone \$130,828 (2000 - \$166,598), travel related to operations \$53,092 (2000 - \$408,982), repairs and maintenance \$113,929 (2000 - \$133,326), automotive \$49,778 (2000 - \$45,117), insurance \$98,457 (2000 - \$75,506) and office expenses \$386,298 (2000 - \$297,116).

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The total dollar amount of general overhead expenses is expected to increase as we expand our operations and integrate the iCollector business into our operations.

Professional fees were \$52,354 (2000 - \$337,630) during the nine-month period ended September 30, 2001. The professional fees related to completing our Securities Exchange Act of 1934 reports, professional fees associated

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with the preparation of our American Stock Exchange filings, and other professional fees. Professional fees are expected to increase in the fourth quarter 2001 as a result of legal fees and accounting fees anticipated to result from our acquisition of iCollector.

Depreciation and amortization expense was \$275,944 (2000 - \$414,448) for the nine-month period ended September 30, 2001.

Gross Profit. Cost of revenues was \$3,617,652 (2000 - \$5,423,587) for the nine-month period ended September 30, 2001. Gross profits were \$4,038,992 (2000 - \$2,116,058) or 52.8% (2000 - 28.1%). Until we developed our inventory procurement model, normal gross margins were approximately 15-20% overall. We believe gross profits for our auction house operations may improve further in future periods as we realize the benefits of our inventory procurement model by buying large quantities of discount merchandise and distributing this merchandise to our various outlets.

Gross profits from the iCollector operations are anticipated to be lower than our historical margins as a result of iCollector's business model. iCollector currently generates revenues from commissions received for transactions facilitated on the Internet

Operating Income and Net Loss. For the quarter ended September 30, 2001, we realized loss from operations of \$987,870 (2000 - loss of \$4,194,812). We realized an overall net loss for the nine-month period of \$1,553,336 (2000 - \$4,194,812) or \$0.07 (2000 - \$0.22) per share, including a loss of \$532,327 from disposition of a subsidiary and a loss of \$33,139 from discontinued operations during the nine-month period ended September 30, 2001.

We believe that our "bricks and mortar" operations will be operationally profitable; however, we anticipate we will experience losses during the fourth quarter 2001 resulting from the continued development of our Internet broadcasting technology and software and as a result of our acquisition of iCollector and the development of the iCollector business and integration of their operations into our organization. We plan to market our auction software to third parties subject to completing development and testing of our software for auction houses.

Our financial model is expected to change in future periods as a result of our acquisition of iCollector PLC. iCollector's business model is based on earning fees in connection with transactions facilitated on the Internet.

### Liquidity and Capital Resources

We had cash and cash equivalents of \$3,165,823, accounts receivable of \$528,021, inventory of \$529,450, prepaid expenses of \$260,450 and current portion of receivables on agreement for sale of \$14,287 at September 30, 2001. We anticipate that trade accounts receivables and inventory may increase during the remainder of fiscal 2001 as we increase the number and frequency of our auctions and as we expand our business operations. We had a working capital deficit of

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\$2,888,505, including current assets of \$4.5 million and current liabilities of \$7.4 million. The current liabilities include \$2.7 million in deferred compensation notes issued in connection with our acquisition of iCollector which are convertible into our common stock at our option, subject to shareholder and regulatory approval. Cash flow used for operating activities required \$336,172 during the quarter ended September 30, 2001.

Cash flow from investing activities during the quarter ended September 30, 2001 generated \$2,172,983. Cash flow from investing is expected to decrease as we curtail our investing activities until funds are raised.

Net cash flow used in financing activities during the quarter ended September 30, 2001 was \$20,042. The only financing activities during the quarter involved payments on the principal portion of the promissory note on our Scottsdale property.

In light of the current capital market condition, our operating and capital budget for the year ending December 31, 2001 is approximately \$750,000. We intend to concentrate our resources on achieving profitability during 2001.

### Outlook

We believe that we have created an infrastructure, Internet technology, and inventory procurement model that will realize significant benefits in the future. This model will allow us to open a new auction house in Vancouver,

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British Columbia in June 2001 and will allow us to expand into new markets in the United States in the second and third quarter of 2001.

We believe our acquisition of iCollector will allow us to diversify our business and accelerate the development of our Internet business. See "Item 5 Other Information."

We intend to meet our cash requirements through revenues generated from our operations and private or public offerings of our equity or debt. We are currently seeking such financing by presenting our business plan to merchant and investment banks, fund managers and investment advisors. We cannot assure you that we will successfully raise any additional financing on acceptable terms, if at all, and our failure to meet our cash requirements will force us to abandon some of our plans of operation, sell some of our assets or certain business operations or liquidate our business, all of which will have a material adverse effect on our business and results of operations.

We cannot assure you that our actual expenditures for fiscal 2001 will not exceed our estimated operating and capital budget. Actual expenditures will depend on a number of factors, some of which are beyond our control, including, among other things, the revenues from our auction operations, the success of our geographical expansion, the availability of financing on acceptable terms, reliability of the assumptions of management in estimating cost and timing, costs related to the development of our web site and technologies, economic conditions and competitive factors in the auction industry.

### Plan of Operation

Our plan of operation is based on our operating history, our experience in the industry, our discussions with third parties, the SEC filings of our competitors and the decisions of our management. Set out below is a summary of our plan of operation and operating budget for the remainder of the fiscal year ending

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December 31, 2001.

Generate revenues through auctions and increase our volume of sales by increasing the number of live auctions at our existing locations

We will continue to operate auctions at our five locations in Surrey and Coquitlam, British Columbia; Tacoma, Washington; Scottsdale, Arizona, and San Mateo, California. We also hold auctions at customer locations in bankruptcies and insolvencies.

Increase revenues by broadcasting our auctions on the Internet and by selling merchandise on our web site

We launched our web site for public viewing in September 1999 and broadcasted our first live auction in January 2000. We are in the process of further refining the technologies related to broadcasting live auctions on our web site. We intend to broadcast auctions from all our locations on an alternating basis. We may add auctions of other auction houses if we acquire additional auction locations or if we develop strategic affiliations with other auction houses to broadcast their auctions. We intend to integrate the iCollector business into our business.

Continue research and development to improve our web site and auction broadcasting technologies

We plan to continue our research and development efforts to improve our web site and auction broadcasting technologies. We are in the process of refining our live auction broadcasting technologies and intend to develop software and systems that will allow us to improve graphical presentations, the speed of our bidding process, the preview of merchandise and the method of registering bidders. We anticipate that we will spend a total of approximately \$750,000 on research and development efforts during fiscal 2001, subject to securing additional financing and generating sufficient cash flow from our operations.

Install the live broadcast technology at regional auction sites

We plan to install live broadcast technology at all of our auction locations. We intend to complete the installation of broadcast equipment at Coquitlam, British Columbia and San Mateo, California during 2001. We estimate the costs of installing broadcast equipment will be approximately \$10,000 to \$15,000 per location.

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Commence geographic expansion program by acquiring or entering into strategic affiliations with auction companies

We intend to broadcast the auctions of other auction houses from a variety of locations throughout North America. We also intend to license our software to other auction companies and commence marketing efforts in the remainder of 2001. Our management also intends to continue to identify possible auction companies to enter into marketing strategic relationships. We have also entered a new lease to acquire additional auction space in Vancouver, British Columbia. We intend to search for a new location in Northwest Washington State. This facility is expected to house an expansion of our Tacoma location and will be a new location for additional liquidation and auction services.

Our acquisition of iCollector is expected to result in a number of strategic relationships with galleries, auction houses and art dealers, and a relationship with e-Bay to broadcast our live auctions. We cannot assure you that we will successfully integrate the iCollector operations into our business or that our

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venture will be commercially successful.

### Install the computer server hardware

We installed 17 servers in the first phase of our hardware and software implementation program in our British Columbia location in December 1999. We intend to install additional servers as traffic on our web site increases. When this demand increases, we may install additional servers in Arizona and New York. Our multi-server networking strategy is designed to allow visitors to our auction sites to have timely response time to effectively bid for items at our live auctions without bandwidth restrictions. We are now at a point where the Internet traffic to our Web site is taxing the ability of our current servers. To keep up with the demand placed on our current servers, we acquired new servers in the second quarter of 2001.

### Hire additional key personnel

We anticipate adding up to 15 new employees with e-commerce, software development, and software maintenance experience during 2001. The hiring of these employees will subject to the Company obtaining additional financing and the level of profits generated from our operations.

In addition, iCollector has approximately 20 employees, which we have retained.

### Expansion of iCollector Business

We believe that the acquisition of iCollector will enable us to more efficiently and quickly deploy our technology to the many auction houses in Europe, the United Kingdom and the United States. We expect to realize synergies of scale in the areas of marketing, web and internet hosting, and internet and software development. We expect to realize the benefits of these synergies throughout the remainder of 2001.

iCollector had approximately \$2 million in working capital to fund its operations and capital requirements for approximately one year. We believe that this will be sufficient time for us to develop and integrate the iCollector business into our organization profitably.

### Summary of Operating and Capital Budget

Set forth below are our estimated cash operating and capital budgets for operations, technology purchases, research and development and implementing our expansion strategy for the remainder of the fiscal year ending December 31, 2001:

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Marketing	\$ 250,000
Ongoing research and development	200,000
Expansion of inventories	200,000
Servers and operating systems	100,000
Geographic expansion	0

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Required Capital:

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\$750,000

Our revised operating and capital budget for the fiscal year ending December 31, 2001 is estimated to be approximately \$750,000. As of September 30, 2001, we had a working capital deficit of approximately \$2.9 million, including current liabilities related to deferred compensation notes in the principal amount of \$2.7 million issued in connection with our acquisition of iCollector. These deferred compensation notes are convertible at our option into common shares at \$1.43 per share, subject to shareholder approval. We intend to convert these notes into shares if we cannot raise additional capital on acceptable terms to fund payment of the notes and our working capital requirements. We cannot assure you that our actual expenditures for that period will not exceed our estimated operating budget. Actual expenditures will depend on a number of factors, some of which are beyond our control, including, among other things, the availability of financing on acceptable terms, acquisition and/or expansion costs, reliability of the assumptions of management in estimating cost and timing, certain economic factors, the timing related to development of our technology and cost associated with operating our auctions.

In the event we determine that we may be unable to meet our on-going capital commitments, we plan to sell certain non-essential assets, including our property located in Scottsdale, Arizona. We anticipate that we may realize approximately \$1 million on the sale of the property. In addition, we may take some or all of the following actions:

- o reduce expenditures on research and development;
- o reduce sales and marketing expenditures;
- o reduce general and administrative expenses through lay offs or consolidation of our operations;
- o suspend operations that are not economically profitable; or
- o sell assets, including licenses to our technologies.

### Political and Economic Uncertainties

Our business and our ability to raise additional financing may be adversely affected by political and economic risks and uncertainties. The general economic slow down in the United States and Europe may adversely affect the demand for products offered at our auctions. The events of September 11, 2001 and the political uncertainty in the Middle East may negatively affect the general economy, the capital markets and our ability to raise capital on acceptable terms, if at all. There can be no assurance that the Company will be able to increase our revenues from operations or to raise sufficient financing to meet our on-going obligations on acceptable terms, if at all. We also cannot assure you we will successfully integrate the iCollector operations into our business or that economic uncertainties will not have a material adverse affect on our business and results of operations.

### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We believe that we do not have any material exposure to interest or commodity risks. We are exposed to certain economic and political changes in international markets where we compete, such as inflation rates, recession, foreign ownership restrictions, domestic and foreign government spending, budgetary and trade policies and other external factors over which we have no control.

Our financial results are quantified in U.S. dollars but a majority of our

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obligations and expenditures with respect to our operations are incurred in Canadian dollars. Although we do not believe we currently have any materially significant market risks relating to our operations resulting from foreign exchange rates, if we enter into financing or other business arrangements denominated in currency other than the U.S. dollar or the Canadian dollar, variations in the exchange rate may give rise to foreign exchange gains or losses that may be significant.

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We currently have no material long-term debt obligations other than a promissory note, with interest at 9% per annum, repayable at \$8,569 per month including principal and interest, due July 24, 2028. The promissory note is secured by a mortgage on our Scottsdale property. We do not use financial instruments for trading purposes and we are not a party to any leverage derivatives. In the event we experience substantial growth in the future, our business and results of operations may be materially affected by changes in interest rates and certain other credit risk associated with its operations.

### Part II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

As of the date hereof, there is no material litigation pending against us. From time to time, we are a party to litigation and claims incidental to the ordinary course of our business. While the results of litigation and claims cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our business, financial condition, results of operations and cash flows.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On September 27, 2001, our offer to acquire iCollector was declared unconditional in all respects. As a result, we were required to issue 4,150,000 shares of common stock and deferred consideration notes in the aggregate principal amount of \$3,000,000 and earn-out consideration notes in the aggregate principal amount of \$5,000,000. See "Other Events." The Offer was made pursuant to an exemption from the U.S. tender offer rules provided by Rule 14d-1(c) under the Exchange Act and pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended, provided by Rule 802 thereunder.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders during the quarter ended September 30, 2001.

#### ITEM 5. OTHER INFORMATION

On August 13, 2001, Levy Gee, our financial advisor in the United Kingdom, made

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a recommended offer on our behalf to acquire all of the issued and outstanding ordinary shares of iCollector PLC (the "Offer") for 4,150,000 common shares of Ableauctions, deferred consideration notes in the aggregate principal amount of \$3,000,000 ("Deferred Consideration Note"), and additional earn-out deferred consideration notes in the aggregate principal amount of \$5,000,000 ("Earn Out Consideration Note"). Total consideration for all of the shares of iCollector has been valued at \$14,256,000.

**Deferred Consideration Notes.** We will issue Ableauctions Deferred Consideration Notes to the shareholders of iCollector in the aggregate principal amount of \$3,000,000 payable, without interest, one year from the date the Offer becomes unconditional in all respects. These Deferred Consideration Notes are convertible into shares of common stock at our sole option at \$1.43 per share, subject to approval by our shareholders and the approval of a listing application by AMEX related to such shares, if required.

**Earn Out Consideration Notes.** We will issue Earn Out Consideration Notes to the shareholders of iCollector in the aggregate principal amount of \$5,000,000, payable, without interest, on September 30, 2002 only if iCollector satisfies certain revenue and transaction milestones during the month of July 2002. The Earn Out Consideration Notes are convertible into common stock at our sole option at the fair market value of such shares (as determined by the five day average closing price of the shares of common stock of Ableauctions as quoted on the AMEX or such other primary exchange or public market for such shares), subject to minimum of 2,000,000 shares and a maximum

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of 3,500,000 shares in aggregate. We will obtain shareholder approval and listing approval from AMEX prior to exercising our option to convert the Ableauctions Earn Out Consideration Notes into Earn Out Consideration Shares, if required.

The Offer was declared unconditional in all respects on September 27, 2001. On October 1, 2001, we filed a report on Form 8-K in connection with this transaction.

The business of iCollector is to provide an indexed catalogue of art, antiques and collectibles for over 300 auction houses, dealers and galleries in the U.K., the United States and Europe and to facilitate transactions by broadcasting live auctions over the Internet with the provision of interactive live bidding in conjunction with eBay Live Auctions.

We expect to market and distribute our auction software to the various customers of iCollector. We will not compete with eBay with iCollector's customers to deploy and implement our live Internet broadcasting technology.

In connection with our negotiations related to the Offer, we entered into a non-binding Heads of Terms with iCollector and Schroders Investment Management Limited, which outlined the terms of the Offer. Under the terms of the Heads of Terms, Schroders arranged for Northern Ireland Local Government Officers' Superannuation Committee ("Northern Ireland") to provide bridge financing to iCollector in the amount of \$460,000. We guaranteed iCollector's obligation under the bridge financing and agreed to issue up to 500,000 shares of our common shares to Northern Ireland in the event iCollector defaulted on the bridge loan. The bridge loan was converted into iCollector shares immediately prior to the first closing and exchanged for Ableauctions.com, Inc. common stock, Deferred Consideration Notes and Earn Out Consideration Note under the terms of the Offer.



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### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### a) Exhibits

- 2.1(1) Share Purchase Agreement dated July 9, 1999 among Dexton Technologies Corporation, Able Auctions (1991) Ltd., and Ableauctions.com, Inc., as amended by Addendum dated August 16, 1999.
- 2.4(1) Agreement and Plan of Reorganization dated February 1, 2000 among Falcon Trading, Inc., Ableauctions.com (Washington), Inc., and Ableauctions.com, Inc.
- 2.5(3) Asset Purchase Agreement dated March 20, 2000 among Mesler's Auction House of Scottsdale, LLC, Ableauctions.com (Washington), Inc., and Ableauctions.com, Inc.
- 2.6(3) Purchase and Sale Agreement dated March 20, 2000 between C&C Capital Investment, Inc. and Ableauctions.com (Washington), Inc.
- 3.1(1) Articles of Incorporation, as amended (incorporated by reference to Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5 of the Registrant's Registration Statement on Form 10-SB).
- 3.2(2) Bylaws (Incorporated by reference to Exhibit 3.6 of the Registrant's Registration Statement on Form 10-SB).
- 10.1(1) 1999 Stock Option Plan with Form of Option Agreement (Incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-8).
- 10.2(1) Form of Stock Option Agreement
- 10.3(1) Share Purchase Agreement dated April 1, 1998 among Jeremy Dodd, Dexton Technologies Corporation, and Able Auctions (1991) Ltd.
- 10.4(1) Share Purchase Agreement dated July 9, 1999 among Dexton Technologies Corporation, Able Auctions (1991) Ltd., and Ableauctions.com, Inc., as amended by Addendum dated August 16, 1999
- 10.5(1) Contribution Agreement dated July 15, 1999 between Douglas McLeod and Ableauctions.com, Inc. (then J.B. Financial Services, Inc.) regarding Mr. McLeod's contribution of 8,000,000 shares of common stock to the Company's treasury
- 10.6(1) Asset Purchase Agreement dated September 20, 1999 among Ross Auctioneers & Appraisers Ltd., Able Auctions (1991) Ltd., and Ableauctions.com, Inc.
- 10.7(1) Asset Purchase Agreement dated September 20, 1999 between John Carrier dba LJM Computer Resources and Able Auctions (1991) Ltd. regarding the web site located at www.bcbids.com.
- 10.8(1) Bill of Sale dated September 20, 1999 between Ronald H. Smallwood and Able Auctions (1991) Ltd. regarding the domain name "bcbids.com".

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- 10.9(1) Employment Agreement dated September 20, 1999 between Able Auctions (1991) Ltd. and Richie Smallwood.
- 10.10(1) Subscription Agreement dated July 20, 1999 between Ableauctions.com, Inc. and Silicon Capital Corp.
- 10.11(1) Consulting Agreement dated August 24, 1999 between Able Auctions (1991) Ltd. and Dexton Technologies Corporation
- 10.12(1) Investor Relations Agreement dated September 15, 1999 between Ableauctions.com, Inc. and North Star Communications Inc.
- 10.13(1) Investor Relations Agreement dated October 1, 1999 between Ableauctions.com, Inc. and European Investor Services Ltd.
- 10.14(1) Lease Agreement dated September 1, 1999 between Derango Resources Inc. and Ableauctions.com, Inc.
- 10.15(1) Sublease dated August 22, 1999 between HGP Glass Industries of Canada Inc. and Ableauctions.com, Inc.
- 10.16(2) Proposal by Compaq Computer and accepted by Dexton Technologies Corporation dated September 1999, for installation of Distributed Internet Server Array (DISA).
- 10.17(2) Internet Business Services Agreement by and between Telus Advanced Communications and Dexton Technologies Corporation dated September 14, 1999.
- 10.18(4) Investor Relations Agreement dated February 3, 2000 between Ableauctions.com, Inc. and KCSA Public Relations Worldwide
- 10.19(3) Share Purchase Agreement dated May 16, 2000 among Randy Ehli, Ehli's Commercial/Industrial Auctions, Inc., and Ableauctions.com, Inc.
- 10.20(5) Share Purchase Agreement dated July 14, 2000 among Brett Johnston and One Day Holdings Ltd., Johnston's Surplus Office Systems Ltd., and Ableauctions.com, Inc.
- 10.21(6) Letter agreement dated July 31, 2000 between Murray Jarvis, Michael Collins, and Ableauctions.com, Inc.
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- 10.22(7) Letter agreement dated July 31, 2000 between Murray Jarvis and Ableauctions.com, Inc.
- 10.23(7) Lease Agreement dated November 1, 2000.
- 10.24(8) Guarantee by and between Ableauctions.com, Inc. and Northern Ireland Local Government Officers' Superannuation dated June 21, 2001.
- (1) Previously filed on November 13, 1999 on Form 10-SB.
- (2) Previously filed on December 30, 1999 on Form 10-SB/A.
- (3) Previously filed on April 4, 2000 on Form 8-K, as amended on June 9, 2000.
- (4) Previously filed on April 13, 2000 on Form 10-KSB.
- (5) Previously filed on August 14, 2000 on Form 8-K.

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- (6) Previously filed on October 19, 2000 on Form S-1.
- (7) Previously filed on April 2, 2001 on Form 10-KSB.
- (8) Previously filed on August 16, 2001 on Form 10-KSB.

b) Reports on Form 8-K

Form 8-K filed on August 17, 2001.  
Form 8-K filed on October 1, 2001.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ABLEAUCTIONS.COM INC.

Date: November 19, 2001

By: /s/ Abdul Ladha

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Name: Abdul Ladha  
Title: President & Chief Executive  
Officer  
(Principal Executive Officer)

Date: November 19, 2001

By: /s/ Ron Miller

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Name: Ron Miller  
Title: Chief Financial Officer  
(Principal Financial Officer)