

AUDITORS' REPORT TO THE MEMBERS

We have audited the balance sheet of the Insurance Council of British Columbia as at May 31, 2004 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at May 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG

Chartered Accountants

Vancouver, Canada

July 2, 2004

INSURANCE COUNCIL OF BRITISH COLUMBIA

Balance Sheets

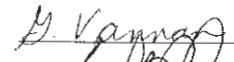

May 31, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash	\$ 871,777	\$ 764,144
Accounts receivable	16,671	20,223
Prepays	39,008	47,541
	927,456	831,908
Investments (note 3)	1,904,045	1,838,146
Capital assets (note 4)	222,187	294,608
	\$ 3,053,688	\$ 2,964,662
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 163,979	\$ 327,917
Pending application fees	191,178	285,912
Deferred revenue	1,152,105	1,081,492
	1,507,262	1,695,321
Tenant inducement	41,746	46,964
Net assets:		
Invested in capital assets	222,187	294,608
Unrestricted operating surplus	1,282,493	927,769
	1,504,680	1,222,377
	\$ 3,053,688	\$ 2,964,662

Commitments (note 6)

See accompanying notes to financial statements.

Approved on behalf of the Council:

 Member
 Member

INSURANCE COUNCIL OF BRITISH COLUMBIA

Statements of Changes in Net Assets

Years ended May 31, 2004 and 2003

	Invested in capital assets	Unrestricted operating surplus	2004 Total	2003 Total
Balance, beginning of year	\$ 294,608	\$ 927,769	\$ 1,222,377	\$ 875,623
Excess (deficiency) of revenue over expenses	(142,592)	424,895	282,303	346,754
Purchase of capital assets	70,171	(70,171)	-	-
Balance, end of year	\$ 222,187	\$ 1,282,493	\$ 1,504,680	\$ 1,222,377

INSURANCE COUNCIL OF BRITISH COLUMBIA

Statements of Operations

Years ended May 31, 2004 and 2003

	2004	2003
Revenue (schedule)	\$ 2,963,872	\$ 3,187,375
Operating expenses:		
Advertising	9,677	9,387
Automobile and travel	40,744	44,740
Data processing and information system maintenance	122,469	48,515
Equipment rentals and service	11,187	10,773
Exam room rental	12,248	21,635
Hearings	10,731	11,159
Insurance	17,067	12,322
Maintenance	9,920	9,712
Meetings	138,597	159,637
Office and miscellaneous	33,957	71,806
Postage and delivery	90,629	84,269
Proctor and marker fees	25,490	34,096
Professional fees	143,035	268,214
Rent	247,494	245,645
Salaries and benefits	1,513,075	1,491,602
Stationery, printing and supplies	78,168	132,637
Telephone	24,020	29,817
Training	10,469	10,531
	2,538,977	2,696,297
Excess of revenue over expenses before amortization	424,895	491,078
Amortization	(142,592)	(144,324)
Excess of revenue over expenses	\$ 282,303	\$ 346,754

See accompanying notes to financial statements.

INSURANCE COUNCIL OF BRITISH COLUMBIA

Statements of Cash Flows

Years ended May 31, 2004 and 2003

	2004	2003
Operations:		
Excess of revenue over expenses	\$ 282,303	\$ 346,754
Items not involving cash:		
Amortization	142,592	144,324
Decrease in rent expense from tenant inducement	(5,218)	(5,218)
Changes in non-cash operating working capital (note 5)	(175,974)	199,069
Tenant inducement received	-	52,182
	243,703	737,111
Investments:		
Increase in investments	(65,899)	(371,901)
Purchase of capital assets	(70,171)	(150,881)
	(136,070)	(522,782)
Increase in cash	107,633	214,329
Cash, beginning of year	764,144	549,815
Cash, end of year	\$ 871,777	\$ 764,144

See accompanying notes to financial statements.

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2004 and 2003

1. Operations:

The Insurance Council of British Columbia (the "Council") is constituted under the Financial Institutions Act of British Columbia (the "Act"). The Council determines the qualification and suitability of applicants for licensing as insurance agents, insurance salesmen and insurance adjusters, administers examinations to such applicants, and issues the respective licences. In addition, the Council investigates complaints and determines any required disciplinary action.

As well as making fee assessments against licensees and insurers to fund its expenses, the Council collects fees prescribed under the Act on behalf of the provincial government.

2. Significant accounting policies:

(a) Revenue recognition:

Licence fee revenue is recognized over the term of the licence. As licence fees cover a two-year term, one-half of the fees are recognized as revenue in the initial year with the balance deferred and recognized as revenue in the second year of the licence.

Receivables from licensees for Council fees billed but not collected prior to the year-end are not recognized in the accounts, as renewal is at the discretion of the member.

(b) Capital assets:

Asset	Basis	Rate
Furniture and equipment	Straight-line	10 years
Leasehold improvements	Straight-line	10 years
Computer hardware	Straight-line	5 years
Computer software - SQL	Straight-line	3 years
Computer software - other	Straight-line	2 years

(c) Pending application fees:

Pending application fees represent amounts collected for licence fees where the licence has not been issued prior to the year-end.

(d) Tenant inducement:

Tenant inducement represents amounts received upon signing a new office premises lease. Such amounts are recognized as a reduction of rent expense on a straight-line basis over the lease term.

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from estimates used in the preparation of the financial statements.

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2004 and 2003

5. Statements of cash flows information:

	2004	2003
Changes in non-cash operating working capital:		
Accounts receivable	\$ 3,552	\$ (5,631)
Inventory	-	45,180
Prepays	8,533	(28,917)
Accounts payable and accrued liabilities	(163,938)	112,001
Pending application fees	(94,734)	78,253
Deferred revenue	70,613	(1,817)
	\$ (175,974)	\$ 199,069

6. Commitments:

The Council has entered into an operating lease with respect to its office premises, extending until May 2012, as well as certain commitments for networking and technical support services, extending until March 2005. The following annual payments are required in respect of these commitments, excluding operating costs and property taxes on rented premises:

	2004	2005	2006	2007	2008	Thereafter	
		\$ 199,000	185,000	117,000	139,000	139,000	409,000

7. Financial instruments:

(a) Fair value:

The Council's financial instruments include cash, accounts receivable, investments and accounts payable and accrued liabilities. With the exception of investments, the carrying values of such financial instruments are considered by management to approximate their fair values due to their short-term nature. With respect to investments, it is the Council's intent to hold the individual instruments to maturity, and, accordingly, no attempt has been made to estimate their fair values.

(b) Interest rate risk:

The Council's investments are reinvested upon maturity at interest rates available at the time. As a result, fluctuations in interest rates on such investments will affect interest income earned.

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2004 and 2003

2. Significant accounting policies (continued):

(f) Comparative figures:

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

3. Investments:

Investments, which are carried at invested principal plus accrued interest, represent three-year term investments with twelve Canadian life insurers, no one of which holds more than 15% of the total invested. The weighted average term to maturity is 408 days (2003 - 773 days). The weighted average effective interest rate is 3.58% (2003 - 3.58%).

4. Capital assets:

	2004		2003	
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	\$ 267,424	\$ 161,055	\$ 106,369	\$ 126,223
Leasehold improvements	35,404	3,540	31,864	-
Computer hardware	170,900	89,598	81,302	92,908
Computer software - SQL	160,700	160,700	-	53,567
Computer software - other	64,118	61,466	2,652	21,910
	\$ 698,546	\$ 476,359	\$ 222,187	\$ 294,608

INSURANCE COUNCIL OF BRITISH COLUMBIA

Schedules of Revenue

Years ended May 31, 2004 and 2003

	2004	2003
Revenue:		
Council fees - Licensees:		
Agents - Life, Accident and Sickness	\$ 999,845	\$ 1,034,785
Agents - General / Vehicle	1,003,420	935,868
Salesmen - Travel	258,923	261,972
Adjusters	49,710	49,230
Non-resident endorsement	21,325	20,675
	2,333,223	2,302,530
Council fees - Insurers	222,300	224,100
Examination fees:		
Life	212,520	387,755
Other	7,785	9,510
Interest and other	188,044	176,970
Sale of insurance manuals, net	-	86,510
	\$ 2,963,872	\$ 3,187,375