

*Financial Statements of*

**INTERNATIONAL SCIENCE AND  
TECHNOLOGY CENTER**

*December 31, 2005 and 2004*

## Independent Auditors' Report

To the Board of Governors of  
International Science and Technology Center

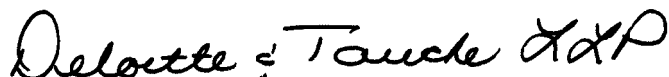
We have audited the accompanying balance sheets of International Science and Technology Center as of December 31, 2005 and 2004, and the related statements of revenues and expenses and of cash flows for the years then ended. These financial statements are the responsibility of the management of International Science and Technology Center. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as noted in the following paragraphs, we conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

International Science and Technology Center requires all funded institutions to provide written representation that they do not receive funding from multiple sources. Funding received from multiple sources may result in certain misclassifications of project costs. We were, however, unable to confirm that the funded institutions do not receive funding from multiple sources due to restricted access to institute records. There were no alternative audit procedures that we could adopt to confirm the above.

As discussed in Note 2, fixed assets and including computer software costs, which have useful lives extending beyond one year, were expensed when acquired during the current and prior years. International Financial Reporting Standards require these assets to be capitalized and depreciated over their expected useful economic lives. Capitalization of fixed assets used for projects and the related depreciation would have a significant impact on the accompanying financial statements if applied.

In our opinion, except for adjustments that might be necessary as a result of the matters noted in the preceding paragraphs, the financial statements give a true and fair view of the financial position of International Science and Technology Center as of December 31, 2005 and 2004, and of the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

Toronto, Ontario  
March 24, 2006

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Table of Contents

December 31, 2005 and 2004

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	<u>Page</u>
Balance Sheets	1
Statements of Revenues and Expenses	2
Statements of Cash Flows	3
Notes to the Financial Statements	4-19

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Balance Sheets

December 31, 2005 and 2004

(Thousands of U.S. Dollars)

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 3)	\$ 182,633	\$ 197,350
Receivables		
Amounts due from funding parties (Note 5)	31,159	39,549
Project advances	521	629
Other receivables (Note 6)	48	233
Accrued income receivable	610	318
Loan receivable (Note 4)	202	324
Other assets	520	258
	<u>215,693</u>	<u>238,661</u>
<b>NON-CURRENT RECEIVABLES FROM FUNDING PARTIES (Note 5)</b>	<u>5,708</u>	<u>7,486</u>
	<u>\$ 221,401</u>	<u>\$ 246,147</u>
<b>LIABILITIES AND CAPITAL CONTRIBUTIONS</b>		
<b>CURRENT</b>		
Accounts payable		
Projects	\$ 3,546	\$ 3,222
Administration and project vendors	2,630	1,515
Grants payable to institutes	8,741	9,694
	<u>14,917</u>	<u>14,431</u>
<b>CAPITAL CONTRIBUTIONS (Note7)</b>		
<b>DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - PROJECTS</b>		
	99,132	99,313
<b>DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - OPERATING</b>		
Administrative budget	8,160	6,892
Supplemental budget	18,942	22,888
<b>UNDESIGNATED CAPITAL CONTRIBUTIONS ("UCC")</b>	<u>80,250</u>	<u>102,623</u>
	<u>206,484</u>	<u>231,716</u>
<b>TOTAL LIABILITIES AND CAPITAL CONTRIBUTION</b>	<u>\$ 221,401</u>	<u>\$ 246,147</u>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statements of Revenues and Expenses

Years ended December 31, 2005 and 2004

(Thousands of U.S. Dollars)

	<u>2005</u>	<u>2004</u>
<b>REVENUES</b>		
Project revenues (Note 7(a))	\$72,476	\$77,102
Operating revenues		
Administrative budget (Note 7(b))	9,560	10,008
Supplemental budget (Note 7(b))	9,940	11,119
Investment income	5,714	3,254
Other income (Note 10)	-	680
	<u>97,690</u>	<u>102,163</u>
<b>EXPENSES</b>		
Project expenses (Note 8)		
On-going projects	69,735	75,332
Completed projects	2,741	1,770
Operating expenses (Note 9)		
Administrative budget	8,932	7,548
Supplemental budget	9,940	11,119
Other expenses (Note 10)	1,171	4
	<u>92,519</u>	<u>95,773</u>
<b>EXCESS OF REVENUES OVER EXPENSES (Note 11)</b>	<u>\$ 5,171</u>	<u>\$ 6,390</u>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statements of Cash Flows

Years ended December 31, 2005 and 2004

(Thousands of U.S. Dollars)

	2005	2004
<b>NET (OUTFLOW) INFLOW OF CASH AND CASH EQUIVALENTS RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Inflows		
Cash received from funding parties (Note 12)	\$ 71,749	\$ 94,618
Investment income	5,422	3,174
Net foreign exchange gain	-	1,003
Other	68	63
	<u>77,239</u>	<u>98,858</u>
Outflows		
Project expenditures	(72,195)	(76,186)
Administrative budget	(7,886)	(7,501)
Supplemental budget	(10,636)	(10,828)
Net foreign exchange loss	(1,239)	-
	<u>(91,956)</u>	<u>(94,515)</u>
<b>INVESTING</b>		
Proceeds from maturity of restricted investment	-	354
	<u>(14,717)</u>	<u>4,697</u>
<b>CASH (OUTFLOW) INFLOW FOR THE YEAR</b>	<b>(14,717)</b>	<b>4,697</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 3)</b>	<b>197,350</b>	<b>192,653</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)</b>	<b>\$ 182,633</b>	<b>\$ 197,350</b>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

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### 1. ORGANIZATION AND BUSINESS

International Science and Technology Center (hereinafter "ISTC") was established in 1992 pursuant to an agreement signed in Moscow, Russian Federation.

The objectives of ISTC are set forth in Article II of the agreement. ISTC develops, approves, finances and monitors science and technology projects for peace purposes, which are to be carried out primarily at institutions and facilities located in the Russian Federation and other states of the Commonwealth of Independent States ("CIS") and Georgia. Funding parties which contribute to the ISTC include both Government organizations and private contributors.

Based on Article IX of the agreement, the Government of the Russian Federation provides ISTC with free office space and other facilities, along with maintenance, utilities and security for the facility. The value of such items provided is not recorded in the accompanying financial statements as a reliable estimate cannot be obtained.

ISTC's registered office is located at Luganskaya ulitsa, 9, 115516, Moscow, Russian Federation.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *a. Basis of preparation*

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) except as described below:

International Accounting Standard ("IAS") 16 "Property, plant and Equipment" requires fixed assets to be capitalized and depreciated over their useful economic lives and IAS 38 "Intangible Assets" requires computer software costs be capitalized and amortized over its useful economic life. Due to the nature of ISTC's operations, management believes the application of these requirements would improperly match the revenues contributed by the funding parties with the related expenses. Accordingly, fixed assets acquired for use by ISTC and participating institutes are charged to the statement of revenues and expenses upon acquisition (2005 - \$11,718, 2004 - 10,084).

#### *b. Functional currency*

The U.S. dollar is the functional currency for the ISTC. Accordingly, these financial statements have been prepared using U.S. dollars as the reporting currency. Use of the U.S. dollar best reflects the economic substance of the transactions and circumstances of the ISTC.

#### *c. Project activity*

ISTC authorizes and funds scientific projects which are carried out at institutes within CIS and Georgia. Projects are financed by the funding parties either individually or jointly. All project agreements include a maximum amount of funding to be provided by the funding parties.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *c. Project activity (continued)*

The project activity is accounted for in the financial statements as follows:

##### *Projects*

Projects are recognized upon the later occurrence of either the signing date of the project agreement between ISTC, the recipient institutes and the partners or the project commencement date. Upon recognition of a project, the total amount of the funding is credited to the relevant funding parties' designated capital accounts in proportion to the level of funding agreed to by each party. To the extent that the signed projects are not funded by advance payments from the respective funding parties, a receivable is recorded in the accounting records.

##### *Project expenses*

Project expenses consist of three primary components: grants to scientists, equipment and other sundry project expenses.

Projects that have not completed the project closing procedures are presented as on-going projects in the statements of revenues and expenses.

##### *Project revenues*

Project revenues recognized during the year in the statements of revenues and expenses are amounts equal to the total value of project expenses incurred during the year.

#### *d. Operating revenues and expenses*

##### *Administrative operating budget ("AOB")*

Administrative operating budget revenues recognized in the statements of revenues and expenses during the year are amounts approved by the funding parties for the administrative operating budget for the year and transferred from the funding parties' designated capital contributions – administrative –operating budget.

Revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the administrative revenues contributions or upon the Governing Boards approval can be allocated in total or a portion to the AOB and/or SOB in the same method as described above.



# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d. *Operating revenues and expenses (continued)*

##### *Supplemental operating budget ("SOB")*

Supplemental operating budget revenues recognized in the year in the statements of revenues and expenses are amounts equal to expenses incurred during the year.

Operating expenses are charged to the statements of revenues and expenses when incurred.

Any surplus in funds upon completion of the programs within the supplemental operating budget are transferred to the funding parties' undesignated capital contribution account.

#### e. *Investment income*

Investment income is comprised of interest and dividends generated during the year.

Investment income is initially credited to the statements of revenues and expenses and allocated to undesignated capital contributions accounts of each funding parties based on the average cash balance of the funding parties.

#### f. *Cash and cash equivalents*

Cash and cash equivalents include cash and highly liquid short-term investments with maturity dates of less than 90 days.

#### g. *Fixed assets*

Fixed assets are acquired for the ISTC's own use or for the projects and other activities and are comprised of the following:

##### *ISTC equipment*

The costs of the ISTC's equipment, information technology related to purchases and facility improvements are charged to administrative expenses when acquired.

##### *Project equipment*

Since ISTC does not expect to derive any foreseeable economic benefits from the ownership of project equipment, expenses incurred for equipment under each project is recorded as an expense in the statements of revenues and expenses together with other project expenses incurred during the year.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *h. Foreign currency transactions*

Foreign currency transactions are translated into U.S. dollars at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the rate of exchange prevailing at the balance sheet date. Foreign currency translation gains and losses are charged to the statements of revenues and expenses with the exception of translation gains and losses arising from project funding related transactions involving the European Union. Foreign currency translation gains and losses arising from these transactions, denominated in Euros, are charged directly to the European Union's capital contribution accounts and are not included in the statements of revenues and expenses as the projects themselves bear the foreign exchange risk and ISTC's operations are not affected.

#### *i. Taxation*

Under the terms of the agreement establishing ISTC with the Russian Federation Government, ISTC is exempt from income taxes. In addition, ISTC does not pay custom duties and Value Added Taxes ("VAT") on imported goods but does pay VAT on purchases within Russia.

Collectibility of VAT incurred on purchases continues to be uncertain. Accordingly, an allowance for doubtful accounts has been recorded for the VAT that has been recorded as receivables. In the current year, bad debt expense of \$535 (\$392 in 2004) is included as part of the operating expenses - administrative budget.

The VAT incurred on project expenses has been charged to the statements of revenues and expenses as part of the projects costs and a related receivable has not been established.

#### *j. Use of estimates*

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses for the period reported.

Actual results could differ from management's best estimate as additional information becomes available in the future.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up of the following amounts:

	<u>2005</u>	<u>2004</u>
Cash	\$ 165,071	\$ 180,303
Short-term investments	17,562	17,047
	<u>\$ 182,633</u>	<u>\$ 197,350</u>

### 4. LOAN RECEIVABLE

During the year ended December 31, 2003, ISTC acquired a bank note in the amount of 10,328 thousand rubles (\$351) maturing on July 1, 2004 as part of an agreement with the bank to provide a loan to a Russian governmental agency. As this governmental agency was not able to repay its loan to the bank by July 1, 2004, ISTC paid the bank and assumed a loan receivable of 10,000 thousand rubles (\$343) from the Russian government agency. The loan is an interest-free loan.

During the year ended December 31, 2005, the Russian government agency repaid 3,200 thousand rubles (\$122) (2004 - 1,000 thousand rubles (\$36)) to ISTC. Due to the uncertainty of payment terms, the fair value of the loan could not be determined.

### 5. AMOUNTS DUE FROM FUNDING PARTIES

Amounts due from funding parties at December 31 were as follows:

	<u>2005</u>	<u>2004</u>
Due within one year		
European Union	\$ 23,004	\$ 28,604
Japan	1,049	-
Canada	3,103	4,341
Norway	52	52
United States	961	4,800
South Korea	182	164
Other funding parties	2,808	1,588
	<u>\$ 31,159</u>	<u>\$ 39,549</u>
Due after one year		
Japan	\$ 300	\$ -
Canada	119	-
United States	5,069	7,198
Other funding parties	220	288
	<u>\$ 5,708</u>	<u>\$ 7,486</u>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

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### 6. OTHER RECEIVABLES

Other receivables comprise the following:

	<u>2005</u>	<u>2004</u>
Recoverable taxes	\$ 1,542	\$ 1,006
Staff advances	11	12
Other receivables	48	233
	<u>1,601</u>	<u>1,251</u>
Less allowance for doubtful receivables	(1,553)	(1,018)
Net other receivables	<u>\$ 48</u>	<u>\$ 233</u>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

### 7. MOVEMENTS IN CAPITAL

Movements in capital accounts during fiscal years 2005 and 2004 are shown by capital account of the pages which follow:

*a. Designated Capital Contributions ("DCC") - Projects*

Designated capital contribution – Projects represent amounts committed on signed projects net of project expenses incurred to date.

	EU	U.S.	CA	Japan	Norway	Sweden	South Korea	Other Parties	Total
DCC projects - January 1, 2004	\$ 27,957	\$ 54,599	\$ -	\$ 9,270	\$ 25	\$ -	\$ 522	\$ 8,885	\$ 101,258
Transfers to statement of revenues and expenses	(18,104)	(44,199)	(382)	(6,120)	(16)	-	(335)	(7,946)	(77,102)
New projects signed during 2004	17,195	47,983	2,516	393	-	-	155	4,877	73,119
Funding received in excess of expenses transferred to UCC	(30)	(226)	-	(4)	-	-	-	(14)	(274)
Funding received in excess of expenses transferred to DCC - operating - supplemental budget	-	(22)	-	-	-	-	-	-	(22)
Foreign exchange difference	2,327 *	-	-	-	-	-	-	7	2,334
DCC projects - December 31, 2004	29,345	58,135	2,134	3,539	9	-	342	5,809	99,313
Transfers to statement of revenues and expenses	(21,068)	(37,946)	(2,997)	(3,542)	(14)	-	(302)	(6,607)	(72,476)
New projects signed during 2005	18,950	35,310	7,796	2,864	51	-	380	6,702	72,053
Funding received in excess of expenses transferred to UCC	(74)	(174)	-	(33)	-	-	(1)	(15)	(297)
Funding received in excess of expenses transferred to DCC - operating - supplemental budget	(19)	(22)	-	-	-	-	-	-	(41)
Foreign exchange difference	560 *	-	-	-	-	-	-	20	580
DCC projects - December 31, 2005	\$ 27,694	\$ 55,303	\$ 6,933	\$ 2,828	\$ 46	\$ -	\$ 419	\$ 5,909	\$ 99,132

\* Appreciation of the Euro against the U.S. dollar has resulted in an increase in the funds available to the institutes in which the EU is a funding party. Projects in which there is a receivable from the EU at year end denominated in Euro are converted to U.S. dollar at the year end exchange rate and the related DCC project amount is adjusted accordingly.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

### 7. MOVEMENTS IN CAPITAL (continued)

b. *Designated Capital Contributions ("DCC") – Operating*

Administrative operating budget represents amount committed for the administration budget for the next fiscal year.

	EU	U.S.	Canada	Japan	Norway	South Korea	Russia	Other Parties	Total
Administrative operating budget ("AOB") - January 1, 2004	\$ 1,788	\$ 4,785	\$ 1,068	\$ 951	\$ 303	\$ 330	\$ -	\$ 154	\$ 9,379
Transfer to statement of revenues and expenses	(1,880)	(5,111)	(1,071)	(1,045)	(337)	(364)	(50)	(150)	(10,008)
Additional contribution (net of adjustments)	95	329	3	96	35	35	50	52	695
Revenues in excess of expenses for the year (see Note 12)	492	492	492	492	246	246	-	-	2,460
Transfer to UCC for revenues in excess of expenses	(492)	(492)	(492)	(492)	(246)	(246)	-	-	(2,460)
Transfer to SOB	(3)	(3)	-	(2)	(1)	(1)	-	-	(10)
New budget for 2005 approved	1,705	3,505	899	611	52	64	-	-	6,836
Administrative operating budget - December 31, 2004	1,705	3,505	899	611	52	64	-	56	6,892
Transfer to statement of revenues and expenses	(2,197)	(4,123)	(1,391)	(1,103)	(298)	(310)	(50)	(88)	(9,560)
Additional contribution (net of adjustments)	492	618	492	492	246	246	50	98	2,734
Revenues in excess of expenses for the year (see Note 12)	160	315	84	58	5	6	-	-	628
Transfer to UCC for revenues in excess of expenses	(70)	(139)	(37)	(26)	(2)	(3)	-	-	(277)
Transfer to SOB	-	-	-	-	-	-	-	-	-
New budget approved 2006	1,941	3,855	1,117	696	52	82	-	-	7,743
Administrative budget - December 31, 2005	\$ 2,031	\$ 4,031	\$ 1,164	\$ 728	\$ 55	\$ 85	\$ -	\$ 66	\$ 8,160

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

### 7. MOVEMENTS IN CAPITAL (continued)

#### b. Designated Capital Contributions ("DCC") - Operating (continued)

SOB represents amounts committed to programs and program activities net of related expenses incurred to date.

	EU	U.S.	Canada	Japan	South Korea	Other Parties	Total
Supplemental operating budget ("SOB") ("SOB") - January 1, 2004	\$ 1,820	\$ 10,154	\$ 3,512	\$ 757	\$ 137	\$ 76	\$ 16,456
Transfer to statement of revenues and expenses	(2,841)	(6,678)	(837)	(497)	(192)	(74)	(11,119)
Additional contribution	6,883	8,130	4,215	840	234	72	20,374
Transfer to DCC - projects	(26)	(919)	-	-	-	-	(945)
Transfer to UCC for unused funds	-	(1,826)	-	-	-	-	(1,826)
Transfer from DCC - projects for unused funds	-	22	-	-	-	-	22
Transfer to AOB	-	(28)	(2)	(3)	-	-	(33)
Foreign exchange differences	(41)	-	-	-	-	-	(41)
Supplemental budget - December 31, 2004	5,795	8,855	6,888	1,097	179	74	22,888
Transfer to statement of revenues and expenses	(2,977)	(5,185)	(1,002)	(435)	(243)	(98)	(9,940)
Additional contribution	5,355	6,082	1,125	253	242	216	13,273
Transfer to DCC projects	(1,354)	(1,365)	(1,544)	-	-	-	(4,263)
Transfer to UCC for unused funds	(1,370)	(1,000)	(300)	-	-	-	(2,670)
Transfer from DCC - projects for unused funds	19	22	-	-	-	-	41
Transfer to AOB	-	(105)	-	-	-	-	(105)
Foreign exchange differences	(282)	-	-	-	-	-	(282)
Supplemental budget - December 31, 2005	\$ 5,186	\$ 7,304	\$ 5,167	\$ 915	\$ 178	\$ 192	\$ 18,942

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

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### 7. MOVEMENTS IN CAPITAL (continued)

#### c. *Undesignated Capital Contributions ("UCC")*

Undesignated capital contributions are the amounts paid or committed by the funding parties which have not yet been designated for the operating budget or project purposes. In addition, in the case of projects funded by the European Union, the protocol signed between ISTC and the European Union allows a certain proportion of project amounts to be invoiced on approval of the projects. The invoices issued during the year on these projects have been recognized in the financial statements by including them in the European Union's undesignated capital contributions account. Subsequently, when these projects are finally signed, an appropriation is made between the designated and undesignated capital contributions account.

Revaluation of the Euro denominated account expected to be utilized for EU's future obligations resulted in foreign exchange differences.



# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

### 7. MOVEMENTS IN CAPITAL (continued)

*c. Undesignated Capital Contributions ("UCC") (continued)*

	EU	U.S.	CA	Japan	Norway	Finland	Sweden	South Korea	Other Parties	Total
UCC - January 1, 2004	\$ 4,366	\$ 72,465	\$ -	\$ 5,040	\$ 758	\$ 178	\$ 423	\$ 290	\$ 1,541	\$ 85,061
Increase of capital										
Contributions from parties	52,066	29,090	9,423	530	-	-	-	28	59	91,196
Investment income allocation	658	2,057	162	207	13	2	7	18	130	3,254
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	492	492	492	492	246	-	-	246	-	2,460
Transfer from DCC for unused funds on programs under operating - supplemental budget	-	1,826	-	-	-	-	-	-	-	1,826
Transfer from DCC - projects for approved funding in excess of expenses	30	226	-	4	-	-	-	-	14	274
Foreign exchange differences	680	-	-	-	-	-	-	-	(2)	678
Decrease of capital										
Transfer to DCC - projects for signed projects	(22,886)	(34,823)	(2,516)	(377)	-	-	-	(95)	(534)	(61,231)
Transfer to DCC - projects for cash receipt in excess of commitment amount	-	-	-	-	-	-	-	-	-	-
Transfer to DCC for operating - administrative budget	(93)	(3,804)	(773)	(704)	(35)	-	-	(35)	-	(5,444)
Transfer to DCC for operating - supplemental budget	-	(7,210)	-	(840)	-	-	-	-	-	(8,050)
Return of funds	-	(7,145)	-	(223)	-	-	-	-	(31)	(7,399)
Other	-	(2)	-	-	-	-	-	-	-	(2)
<b>UCC - December 31, 2004</b>	<b>\$ 35,313</b>	<b>\$ 53,172</b>	<b>\$ 6,788</b>	<b>\$ 4,129</b>	<b>\$ 982</b>	<b>\$ 180</b>	<b>\$ 430</b>	<b>\$ 452</b>	<b>\$ 1,177</b>	<b>\$ 102,623</b>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

### 7. MOVEMENTS IN CAPITAL (continued)

*c. Undesignated Capital Contributions ("UCC") (continued)*

	EU	U.S.	CA	Japan	Norway	Finland	Sweden	South Korea	Other Parties	Total
UCC - January 1, 2005	\$ 35,313	\$ 53,172	\$ 6,788	\$ 4,129	\$ 982	\$ 180	\$ 430	\$ 452	\$ 1,177	\$ 102,623
Increase of capital										
Contributions from parties	14,593	23,481	-	980	-	-	-	234	1,959	41,247
Investment income allocation	1,570	3,325	350	236	18	3	12	26	174	5,714
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	70	139	37	26	2	-	-	3	-	277
Transfer from DCC for unused funds on programs under operating - supplemental budget	1,370	1,000	300	-	-	-	-	-	-	2,670
Transfer from DCC - projects for approved funding in excess of expenses	74	174	-	33	-	-	-	1	15	297
Foreign exchange differences	(1,178)	-	-	-	-	-	-	-	7	(1,171)
Decrease of capital										
Transfer to DCC - projects for signed projects	(18,175)	(31,009)	(5,570)	(2,278)	(51)	-	-	(100)	(780)	(57,963)
Transfer to DCC - projects for cash receipt in excess of commitment amount	-	-	-	-	-	-	-	-	-	-
Transfer to DCC for operating - administrative budget	(492)	(4,342)	(492)	(492)	(246)	-	-	(246)	(10)	(6,320)
Transfer to DCC for operating - supplemental budget	-	(5,682)	-	-	-	-	-	(64)	(147)	(5,893)
Return of funds	(81)	(1,000)	-	(4)	-	-	-	-	(146)	(1,231)
UCC - December 31, 2005	\$ 33,064	\$ 39,258	\$ 1,413	\$ 2,630	\$ 705	\$ 183	\$ 442	\$ 306	\$ 2,249	\$ 80,250

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

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### 8. PROJECT EXPENSES

Project expenses charged to the statements of revenues and expenses during each year ended December 31 since inception are as follows:

2005	\$ 72,476
2004	77,102
2003	75,715
2002	68,215
2001	52,690
2000	43,923
1999	36,039
1998	33,320
1997	31,029
1996	28,459
1995	22,001
1994	1,765
<hr/>	
Cumulative project expenses incurred as of December 31, 2005	\$ 542,734

Cumulative project expenses amounting to \$542,734 (2004 - \$470,258) reflect actual expenses incurred on ongoing projects and completed projects. Such expenses consisted of the following in 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Grants to scientists	\$ 43,794	\$ 47,753
Equipment	11,718	10,084
Other project costs	16,964	19,265
	<hr/>	<hr/>
	\$ 72,476	\$ 77,102

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# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

### 9. OPERATING EXPENSES

Operating expenses incurred during 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Administrative budget		
Personnel	\$ 3,925	\$ 3,364
Center operations	1,931	1,789
Center facilities and equipment	633	476
Information and branch offices	62	65
Internal programs	2,381	1,854
	<u>\$ 8,932</u>	<u>\$ 7,548</u>
	<u>2005</u>	<u>2004</u>
Supplemental budget		
Training	\$ 565	\$ 337
Seminars	1,585	2,547
Management information systems	104	91
Expert participation		
United States	4,301	4,795
European Union	2,381	2,568
Canada	568	319
Japan	280	317
South Korea	139	141
Russia	17	4
	<u>\$ 9,940</u>	<u>\$ 11,119</u>

### 10. OTHER INCOME AND EXPENSES

Other income (expenses) during 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Other income (expenses)		
Net foreign exchange (loss)/gain	\$ (1,171)	\$ 678
Write-off of project receivables	-	-
Other income	-	2
Other expenses	-	(4)
	<u>\$ (1,171)</u>	<u>\$ 676</u>

Other expenses represent amounts not specifically contributed through the operating budgets.

**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Notes to the Financial Statements**

December 31, 2005 and 2004  
(Thousands of U.S. Dollars unless otherwise stated)

**11. FUNDING PARTY INFORMATION**

The revenues in excess of expenses during the year have been allocated to the funding parties as follows:

	Project Revenues	Administrative Budget	Supplemental Budget Revenues	Investment Income	Project Expenses	Supplemental Budget Expenses	Other Income (Expenses)	Total
<u>2005</u>								
Canada	\$ 2,997	\$ 84	\$ 1,002	\$ 350	\$ (2,997)	\$ (1,002)	\$ -	\$ 434
European Union	21,068	160	2,977	1,570	(21,068)	(2,977)	(1,178)	552
Finland	-	-	-	3	-	-	-	3
Japan	3,542	58	435	236	(3,542)	(435)	-	294
Sweden	-	-	-	12	-	-	-	12
United States	37,946	315	5,185	3,325	(37,946)	(5,185)	-	3,640
Norway	14	5	-	18	(14)	-	-	23
South Korea	302	6	243	26	(302)	(243)	-	32
Other parties	6,607	-	98	174	(6,607)	(98)	7	181
	<u>\$ 72,476</u>	<u>\$ 628</u>	<u>\$ 9,940</u>	<u>\$ 5,714</u>	<u>\$ (72,476)</u>	<u>\$ (9,940)</u>	<u>\$ (1,171)</u>	<u>\$ 5,171</u>
<u>2004</u>								
Canada	\$ 382	\$ 492	\$ 837	\$ 162	\$ (382)	\$ (837)	\$ -	\$ 654
European Union	18,104	492	2,841	658	(18,104)	(2,841)	680	1,830
Finland	-	-	-	2	-	-	-	2
Japan	6,120	492	497	207	(6,120)	(497)	-	699
Sweden	-	-	-	7	-	-	-	7
United States	44,199	492	6,678	2,057	(44,199)	(6,678)	(2)	2,547
Norway	16	246	-	13	(16)	-	-	259
South Korea	335	246	192	18	(335)	(192)	-	264
Other parties	7,946	-	74	130	(7,946)	(74)	(2)	128
	<u>\$ 77,102</u>	<u>\$ 2,460</u>	<u>\$ 11,119</u>	<u>\$ 3,254</u>	<u>\$ (77,102)</u>	<u>\$ (11,119)</u>	<u>\$ 676</u>	<u>\$ 6,390</u>

All revenues in excess of expenses arising during the year have been allocated to the funding parties UCC accounts based on the funding levels of the sponsors.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statements

December 31, 2005 and 2004

(Thousands of U.S. Dollars unless otherwise stated)

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### 12. AMOUNTS RECEIVED FROM FUNDING PARTIES

Amounts received during the year from the funding parties have either been recorded against accounts receivable or directly against the parties' capital contributions accounts (see Note 7). Such amounts received during 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
European Union	\$ 27,186	\$ 45,170
Japan	1,162	1,585
United States	31,797	28,151
Norway	52	-
South Korea	756	254
Canada	4,038	14,003
Other parties	6,758	5,455
	<u>\$ 71,749</u>	<u>\$ 94,618</u>

### 13. FINANCIAL COMMITMENTS

The funding parties have approved but not yet signed 91 (2004 - 59) projects with a total funding of \$26,007 (2004 - \$16,550) including €10,866 thousand; (2004 - €5,146 thousand) denominated pledges at December 31, 2005 and 2004.

The agreements for projects unsigned as of December 31, 2005 are expected to be signed in 2006.

### 14. FINANCIAL INSTRUMENTS

- a. The fair value of financial instruments approximates their carrying value unless otherwise noted. Funding Parties have the option to terminate a project agreement provided that notification to do so is submitted within the period specified by each agreement. The fair value of the long term amounts is not readily determinable. For Accounts Receivable beyond one year, fair values were not obtained as there is no benefit in obtaining this information.

### 15. PRIOR PERIOD COMPARATIVES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.