AIR MARSHALL ISLANDS, INC.
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALLS ISLANDS)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Air Marshall Islands, Inc.:

We have audited the accompanying statements of net assets of Air Marshall Islands, Inc. (AMI), a component unit of the Republic of the Marshall Islands, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of AMI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amount at which expendable parts is recorded in the accompanying statement of net assets at September 30, 2005, and the amounts at which trade receivables, expendable parts, and air traffic liability are recorded in the accompanying statement of net assets at September 30, 2004. Trade receivables, expendable parts and air traffic liability enter materially into the determination of the results of operations for the years ended September 30, 2005 and 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had accounting records concerning trade receivables, expendable parts, and air traffic liability been adequate, such financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of AMI as of September 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of AMI's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2008, on our consideration of AMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

June 13, 2008

AIR MARSHALL ISLANDS, INC.

Management's Discussion and Analysis
Year Ended September 30, 2005

This section of the Air Marshall Islands, Inc. (AMI) annual financial report presents our discussion and analysis of AMI's financial performance for the fiscal year that ended on September 30, 2005. This discussion and analysis should be read in conjunction with the financial statements which follow this section.

Financial Highlights

Total assets increased by $709,760 or 19% from $3,678,529 in 2004 to $4,388,289 in 2005. The increase in total assets is primarily the effect of a net increase in capital asset activity for the year amounting to $1,113,430. Major capital spending for the year was:

Aircraft and improvements	$ 1,359,780
Rotable spare parts	287,643
Plant and equipment	9,949
Office Furniture and equipment	14,834
Motor vehicles	61,293

For additional information concerning capital assets, please refer to note 4 to the financial statements.

During the year, AMI obtained additional advances from RepMar amounting to $950,000 in accordance with Cabinet Minute C.M. 150 (2002), which approved a loan to AMI in the amount of $2,000,000. These amounts were used to finance major capital expenditures for engine overhaul and repair of aircraft.

Financial Analysis

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of AMI's financial condition. AMI's net assets reflect the difference between assets and liabilities.

A summary of AMI's Statements of Net Assets is presented below:

	2005	2004	2003
Current and other assets	$ 2,052,177	$ 2,455,847	$ 2,362,749
Fixed assets	2,336,112	1,222,682	1,157,053
Total assets	$ 4,388,289	$ 3,678,529	$ 3,519,802
Current liabilities	$ 1,789,111	$ 1,567,201	$ 1,285,074
Non-current liabilities	2,365,545	1,050,000	150,000
Total liabilities	4,154,656	2,617,201	1,435,074
Net assets:			
Invested in capital assets	2,018,112	1,222,682	1,157,053
Unrestricted	(1,784,479)	(161,354)	927,675
Total net assets	233,633	1,061,328	2,084,728
	$ 4,388,289	$ 3,678,529	$ 3,519,802

On October 8, 2004, the Dash 8 aircraft was grounded due to low power of the left-hand engine requiring that a lease engine from Volvo Aerospace be secured and installed, while the removed engine was sent out for repairs. The aircraft resumed services on November 11, 2005. The costs of the engine repair and overhaul increased aircraft and improvement account for the year by $1.4M. The capital expenditure related to the repair was partly financed by funds received from RepMar during the year per C.M. 150 (2002) amounting to $950,000 and a bank loan with a net proceeds of $365,545 from BOMI. These loans increased AMI's loan payable for the year by $1.3M. For additional information concerning long-term debt, please refer to note 5 to the financial statements.

A summary of AMI's Statements of Revenue, Expenses and Changes in Net Assets is presented below:

	2005	2004	2003
Operating revenues:			
Passenger	$ 2,816,119	$ 2,916,811	$ 2,492,861
Cargo	444,403	573,230	408,424
Charter	280,821	286,902	190,478
Other	241,414	352,531	363,167
Total operating revenues	3,782,757	4,129,474	3,454,930
Less: provision for doubtful accounts	(285,671)	-	-
Total net operating revenues	3,497,086	4,129,474	3,454,930
Operating expenses:			
Flying operations	1,889,776	1,932,840	1,825,220
Maintenance	972,186	1,270,712	1,309,755
Depreciation and amortization	629,205	616,942	1,018,591
General and administrative	466,727	593,798	472,490
Promotion and sales	394,336	408,561	411,672
Aircraft and traffic servicing	282,771	330,021	341,330
Total operating expenses	4,635,001	5,152,874	5,379,058
Operating loss	(1,137,915)	(1,023,400)	(1,924,128)
Nonoperating income (expenses):			
Interest expense	(7,780)	-	-
Loss on disposal of plant and equipment	-	-	(86,885)
Other income	318,000	-	-
Total nonoperating (expenses) income, net	310,220	-	(86,885)
Change in net assets	$ (827,695)	$ (1,023,400)	$ (2,011,013)

The Statement of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items that impact the change in net assets. Operating revenues for 2005 showed a decrease of 15% or $632,388 from $4,129,474 in 2004 to $3,497,086 in 2005. The Dash 8 aircraft was grounded for 140 days during the fiscal year, negatively impacting the number of passengers carried during months of good aircraft service availability with domestic passenger numbers falling from 29,050 to 25,789, representing an 11% reduction in passengers carried compared to the prior year.

Accounts receivables determined uncollectible were fully provided in the amount of $285,671. This impacted net operating revenues for the year but provides a realistic picture of AMI's accounts receivable.

During the year ended September 30, 2005, management determined that it had been overcharged for its aircraft lease agreement. As a result, approximately $318,000 was applied by the lessee against an engine overhaul. Related costs have been capitalized and amortization will commence in fiscal year 2006 upon completion of the overhaul. This partly explains the 11% decrease in operating expenses.

Passengers Carried During the Year

In FY2005, AMI achieved 3,507,101 Revenue Passenger Miles (RPM), a decline of 13% and produced 9,667,552 Available Seat Miles (ASM), a decline of 22% from the prior year performance. These changes represent an average load factor of 36% for FY2005 or a 4% increase in average load factor. The improved load factor performance for FY2005 can be attributed to the substitution of the Dornier aircraft while the Dash 8 aircraft was down and to a planned reduction in frequency of services. The increase in load factors occurred despite the 11% decrease in passengers carried. Although 2,666,836 fewer seat miles were made available compared to the prior year, the reduced Revenue Passenger Miles illustrates the reduced passenger demand for travel.

Efforts were made to reduce frequency of scheduled flight services based on real and historical passenger demand to each destination in order to raise the passenger load factors and reduce operating costs. It was necessary to operate the Dornier to various destinations normally and better served by the Dash 8 aircraft, due to the grounding of the Dash 8 for the engine change and nose landing gear incident repairs. The grounding of the Dash 8 prevented AMI from achieving its load factor goals due to the Dornier's poor payload performance on longer flight sectors and the limitations of certain outer-island runways.

Management's Discussion and Analysis for the year ended September 30, 2004, is set forth in AMI's report on the audit of financial statements, which is dated August 15, 2005. That Discussion and Analysis explains the major factors impacting the 2004 financial statements and can be obtained from AMI's General Manager via the contact information below.

Subsequent Events and Economic Decisions That May Affect Next Years' Performance

On October 4, 2006, AMI and RepMar entered into a Memorandum of Agreement wherein payments from RepMar, totaling $552,915, were considered as full and final settlement of all receivables from RepMar as of October 1, 2005.

In February 2007, AMI received funding from RepMar amounting to $2,000,000 of which $1,750,000 was used by AMI to fund the February 1, 2007 purchase of the leased Dash 8 aircraft. This management decision will reduce monthly operating expense of $33,000 (base rent) and non-base rent based on hours flown. For the Year 2004 and 2005, the non-base rent was $210,356 and $108,062, respectively.

Additional Financial Information

The discussion and analysis is designed to provide AMI's customers and other parties with an overview of AMI's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Air Marshall Island, Inc. General Manager at P.O. Box 1319, Majuro, MH 96960.

AIR MARSHALL ISLANDS, INC.

Statements of Net Assets
September 30, 2005 and 2004

		2005		2004
ASSETS				
Current assets:				
Cash	$	42,592	$	87,342
Receivables:				
Trade		631,849		685,346
Employees		248,903		259,366
Affiliates (net of allowance for doubtful receivables of $515,410 and $640,146 at September 30, 2005 and 2004, respectively)		667,135		497,382
		1,547,887		1,442,094
Less allowance for doubtful receivables		(792,370)		(429,532)
Receivables, net		755,517		1,012,562
Expendable parts (net of allowance for obsolescence of $100,000 at September 30, 2005 and 2004)		626,443		495,119
Prepaid expenses and deposits		35,766		130,095
Total current assets		1,460,318		1,725,118
Advance to RepMar		475,859		664,729
Plant and equipment, net		2,336,112		1,222,682
Deposit on equipment		116,000		66,000
	$	4,388,289	$	3,678,529
LIABILITIES AND NET ASSETS				
Current liabilities:				
Bank overdraft	$	55,825	$	-
Current portion of long-term debt		405,324		-
Accounts payable		734,905		392,804
Air traffic liability		182,400		856,300
Accrued expenses		91,810		80,167
Payable to affiliates		318,847		237,930
Total current liabilities		1,789,111		1,567,201
Advances from RepMar		2,000,000		1,050,000
Long-term debt, net of current portion		365,545		-
Total liabilities		4,154,656		2,617,201
Commitments and contingencies				
Net assets:				
Invested in capital assets, net of related debt		2,018,112		1,222,682
Unrestricted		(1,784,479)		(161,354)
Total net assets		233,633		1,061,328
	$	4,388,289	$	3,678,529

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
Passenger	$ 2,816,119	$ 2,916,811
Cargo	444,403	573,230
Charter	280,821	286,902
Other	241,414	352,531
Total operating revenues	3,782,757	4,129,474
Less provision for doubtful accounts	285,671	-
Total net operating revenues	3,497,086	4,129,474
Operating expenses:		
Flying operations	1,889,776	1,932,840
Maintenance	972,186	1,270,712
Depreciation and amortization	629,205	616,942
General and administrative	466,727	593,798
Promotion and sales	394,336	408,561
Aircraft and traffic servicing	282,771	330,021
Total operating expenses	4,635,001	5,152,874
Operating loss	(1,137,915)	(1,023,400)
Nonoperating income (expenses):		
Interest expense	(7,780)	-
Other income	318,000	-
Total nonoperating (expenses) income, net	310,220	-
Change in net assets	(827,695)	(1,023,400)
Net assets at beginning of year	1,061,328	2,084,728
Net assets at end of year	$ 233,633	$ 1,061,328

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	$ 3,080,231	$ 4,183,116
Cash payments to suppliers for goods and services	(2,080,821)	(3,112,009)
Cash payments to employees for services	(1,388,439)	(1,297,689)
Net cash used for operating activities	(389,029)	(226,582)
Cash flows from noncapital financing activities:		
Net borrowing under bank overdraft arrangement	55,825	-
Net cash provided by non-capital financing acitivity	55,825	-
Cash flows from capital and related financing activities:		
Payments for the acquisition of property and equipment	(1,424,635)	(682,571)
Proceeds from issuance of long-term debt	800,000	-
Principal repayment of long-term debt	(29,131)	-
Interest paid on long-term debt	(7,780)	-
Proceeds from RepMar advance	950,000	900,000
Net cash provided by capital and related financing activities	288,454	217,429
Net change in cash	(44,750)	(9,153)
Cash at beginning of year	87,342	96,495
Cash at end of year	$ 42,592	$ 87,342
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (1,137,915)	$ (1,023,400)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	629,205	616,942
Bad debts	285,671	-
(Increase) decrease in assets:		
Receivables:		
Affiliates	(92,586)	(80,822)
Trade	53,497	(20,217)
Employees	10,463	(111,876)
Expendable parts	(131,324)	(29,824)
Prepaid expenses and deposits	44,329	11,337
Advance to RepMar	188,870	129,151
Increase (decrease) in liabilities:		
Accounts payable	342,101	66,410
Air traffic liability	(673,900)	266,557
Accrued expenses	11,643	(77,825)
Payable to affiliates	80,917	26,985
Net cash used for operating activities	$ (389,029)	$ (226,582)
Summary of noncash financing activities:		
Overpayment of aircraft lease applied to engine overhaul:		
Property and equipment	$ (318,000)	$ -
Other income	318,000	-
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

Air Marshall Islands, Inc. (AMI) was incorporated on October 12, 1989 to provide domestic and international carrier service within and from the Marshall Islands. AMI has issued 460,528, 348,845, 301,000 and 54,400 shares of $10 par value common stock to the Marshall Islands Development Authority (MIDA), the Marshall Islands Development Bank (MIDB), the Republic of the Marshall Islands Investment Development Fund (RMIIDF) and the Republic of the Marshall Islands (RepMar), respectively, as of September 30, 2006 and 2005. During AMI's initial operating year, RepMar contributed equity capital (including amounts resulting from the merger with Airline of the Marshall Islands, Inc.) amounting to $1,284,722.

AMI is governed by a six-member Board of Directors appointed by the Cabinet of RepMar.

AMI's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of AMI conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. AMI has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

AMI considers passenger and related revenues and costs directly related to such revenues to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, equity is presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Cash

Custodial credit risk is the risk that in the event of a bank failure, AMI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. AMI does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2005 and 2004, cash was $42,592 and $87,342, respectively, and the corresponding bank balances were $39,973 and $114,341, respectively. Of the bank balance amounts as of September 30, 2005 and 2004, $14,529 and $67,645, respectively, were maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. AMI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

Receivables are both interest free and uncollateralized and are primarily due from government agencies, businesses and individuals located within the Republic of the Marshall Islands.

Allowance for Doubtful Receivables

The allowance for doubtful receivables is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for losses on accounts receivable charged to expense.

Expendable Parts

Flight equipment expendable parts are carried at the lower of average cost or net realizable value.

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment

Flight equipment and other property with a cost that equals or exceeds $2,500 are capitalized, as well as major additions, betterments and renewals. Such assets are stated at cost. Maintenance and repairs are charged to operating expenses as they are incurred. Depreciation of property and equipment and amortization of leasehold equipment are calculated on the straight-line method based on the estimated useful lives of the respective assets.

The estimated useful lives of these assets are as follows:

	Estimated Useful Lives
Building and improvements	20 years
Aircraft and improvements	10 – 15 years
Rotable spare parts	5 – 10 years
Office furniture and equipment	5 – 7 years
Plant and equipment	5 years
Motor vehicles	3 years

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2005 and 2004, the accumulated vacation leave liability totals $51,621 and $82,992, respectively, and is included within the statements of net assets as accrued expenses.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, revenue from domestic flights and operations of any government-owned corporation providing air transportation services are exempt from gross revenue tax. Accordingly, AMI is exempt from this tax relating to gross revenue.

Passenger Revenues

Passenger revenues are recognized as earned revenue when the transportation is provided.

New Accounting Standards

In fiscal year 2005, AMI implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Implementation of GASB Statement Nos. 40 and 42 is reflected in the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

During fiscal year 2006, AMI will implement the following pronouncements:

- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section,* an amendment to NCGA Statement 1, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.

- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34),* which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.

- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.

- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

Management does not believe that the implementation of these pronouncements will have a material impact on the financial statements of AMI.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of AMI.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of AMI.

Reclassification

Certain reclassifications have been made to the 2004 financial statements in order to conform to the 2005 presentation.

(3) Risk Management

AMI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. AMI has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2005 and 2004 is as follows:

	2005			
	October 1, 2004	Additions	Retirements	September 30, 2005
Aircraft and improvements	$ 9,099,489	$ 1,359,780	$ -	$ 10,459,269
Rotable spare parts	3,287,769	287,643	-	3,575,412
Plant and equipment	404,009	9,949	-	413,958
Office furniture and equipment	611,313	14,834	-	626,147
Motor vehicles	140,675	61,293	-	201,968
Buildings and improvements	1	9,136	-	9,137
	13,543,256	1,742,635	-	15,285,891
Less accumulated depreciation and amortization	(12,320,574)	(629,205)	-	(12,949,779)
	$ 1,222,682	$ 1,113,430	$ -	$ 2,336,112

	2004			
	October 1, 2003	Additions	Retirements	September 30, 2004
Aircraft and improvements	$ 8,955,595	$ 143,894	$ -	$ 9,099,489
Rotable spare parts	2,846,219	441,550	-	3,287,769
Plant and equipment	350,476	53,533	-	404,009
Office furniture and equipment	589,998	21,315	-	611,313
Motor vehicles	118,396	22,279	-	140,675
Buildings	1	-	-	1
	12,860,685	682,571	-	13,543,256
Less accumulated depreciation and amortization	(11,703,632)	(616,942)	-	(12,320,574)
	$ 1,157,053	$ 65,629	$ -	$ 1,222,682

(5) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2005 and 2004 is as follows:

	2005	2004
Note payable to bank, due September 28, 2007, interest at 9.5%, payable in monthly installments of $18,408, plus interest, collateralized by a time certificate of deposit (TCD) owned by MIDB and a guarantee by RepMar.	$ 400,000	$ -
Note payable to bank, due June 28, 2007, interest at 7.5%, payable in monthly installments of $18,073, plus interest, collateralized by a TCD owned by MIDB and a guarantee by RepMar.	370,869	-
	770,869	-
Less current installments	405,324	-
Long-term debt	$ 365,545	$ -

Future repayment commitments are as follows:

Year Ending September 30,	Principal	Interest	Total
2006	$ 405,324	$ 46,484	$ 451,808
2007	365,545	13,510	379,055
	$ 770,869	$ 59,994	$ 830,863

Changes in long-term liabilities during the year ended September 30, 2005 was as follows:

	Balance October 1, 2004	Additions	Reductions	Balance September 30, 2005	Due Within One Year
Loans payable	$ -	$ 800,000	$ (29,131)	$ 770,869	$ 405,324
Advance to RepMar	1,050,000	950,000	-	2,000,000	-
	$ 1,050,000	$ 1,750,000	$ (29,131)	$ 2,770,869	$ 405,324

Changes in long-term liabilities during the year ended September 30, 2004 was as follows:

	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Due Within One Year
Advance to RepMar	$ 150,000	$ 900,000	$ -	$ 1,050,000	$ -

(6) Related Party Transactions

AMI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. AMI's airline service is provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at the same terms and conditions provided to third parties.

AMI utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties with the exception of services provided by the RMI Ports Authority (RMIPA), a component unit of RepMar. Specifically, AMI utilizes RMIPA's airport facilities at the Amata Kabua International Airport, including landing rights, for which no fees or charges are levied by RMIPA.

During the years ended September 30, 2005 and 2004, AMI obtained advances totaling $950,000 and $900,000, respectively, from RepMar, in accordance with Cabinet Minute C.M. 150 (2002), which approved a loan to AMI in the amount of $2,000,000. The advances bear no interest and have a repayment term of no more than five years.

During the year ended September 30, 2000, AMI advanced $1,750,000 to RepMar. AMI's liability for payroll taxes, totaling $188,870 and $129,151 during the years ended September 30, 2005 and 2004, respectively, and delinquent payroll taxes and related penalties and interest, totaling $956,120 for prior years, has been applied against this advance. AMI management expects that the remaining advance balance of $475,859 and $664,729 as of September 30, 2005 and 2004, respectively, will be applied against future payroll taxes withheld by AMI.

A summary of related party transactions for the years ended September 30, 2005 and 2004 and related receivable (less allowance for doubtful receivables) and payable balances as of September 30, 2005 and 2004, is as follows:

	2005			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 1,153,122	$ 311,741	$ 82,919	$ -
Marshall Islands Social Security Administration	224	-	103,093	112,238
Marshall Islands National Telecommunications Authority	1,832	2,476	19,551	89,380
Marshalls Energy Company, Inc.	1,892	460	9,141	48,599
Other	25,475	-	104,143	-
	1,182,545	$ 314,677	$ 318,847	$ 250,217
Less allowance for doubtful receivables	(515,410)			
	$ 667,135			

(6) Related Party Transactions, Continued

	2004		
	Receivables	Payables	Expenses
RepMar	$ 1,105,222	$ 82,484	$ -
Marshall Islands Social Security Administration	224	56,292	115,359
Marshall Islands National Telecommunications Authority	249	10,716	162,950
Marshalls Energy Company, Inc.	-	6,536	42,343
Other	31,833	81,902	-
	1,137,528	$ 237,930	$ 320,652
Less allowance for doubtful receivables	(640,146)		
	$ 497,382		

As of September 30, 2005 and 2004, AMI maintained a demand deposit account with an affiliated financial institution amounting to $10,854 and $18,149, respectively.

(7) Commitments and Contingencies

Commitments

On December 11, 2002, AMI entered into a three-year aircraft lease agreement, with a base rent of $33,000 monthly. Minimum lease payments under this lease for the subsequent year ending September 30, 2006 are $79,200. The lease also provides for additional rental expenses based on hours flown. The additional rent expense attributed to non-base rent was $108,062 and $210,356 in 2005 and 2004, respectively. Refer note 9 for additional discussion.

AMI entered into two lease agreements for its offices in Majuro and Ebeye expiring on January 31, 2006 and March 1, 2006, respectively. AMI also entered into another lease agreement for office space at the Amata Kabua International Airport. Total future minimum lease payments under these leases for subsequent years ending September 30 are as follows:

Year Ending September 30,	
2006	$ 20,921
2007	2,059
2008	2,059
2009	2,059
2010	858
	$ 27,956

Contingencies

Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain AMI as a going concern. Although RepMar has provided funding in the past, AMI does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of AMI's operations is dependent upon the future financial support of RepMar, the offering of additional common stock and/or significant improvements in operations, achieved through significant reductions in operating expenses.

(7) Commitments and Contingencies, Continued

On May 15, 2000, AMI cancelled a purchase agreement to acquire two Dornier 328 aircraft at a total cost of $28,045,780. AMI made predelivery payments totaling $2,100,000. In October 2000, AMI sued the aircraft manufacturer for repayment of the predelivery payments and for other claims. On August 17, 2001, a court awarded damages in favor of AMI in the amount of $4,065,000, plus pre-judgment interest in the amount of $115,411. On April 2, 2002, the aircraft manufacturer filed for bankruptcy protection. The ultimate outcome of collection of this judgment is uncertain. As of September 30, 2005, AMI has not been repaid the predelivery payments and has recorded a provision for uncollectible advances of $2,100,000.

Management does not believe that AMI is liable for certain billings, totaling approximately $160,000, which pertains to attorney fees for services that were not authorized by AMI's Board of Directors. The billings are not recorded by AMI and the ultimate resolution of this matter is uncertain.

(8) Other Income

During the year ended September 30, 2005, management determined that it had been overcharged for its aircraft lease agreement. As a result, $318,000 was applied by the lessee against an engine overhaul. Related costs have been capitalized and amortization will commence in fiscal year 2006 upon completion of the overhaul.

(9) Subsequent Events

On December 9, 2005, AMI entered into an $894,864 bank loan. The two notes payable per note 5 at September 30, 2005 were paid in full from the proceeds.

On October 4, 2006, AMI and RepMar entered into a Memorandum of Agreement wherein payments from RepMar of $552,915 were considered as full and final settlement of all receivables from RepMar as of October 1, 2005.

On November 29, 2006, a court ordered AMI to pay delinquent social security contributions of $304,891 by May 15, 2007. Compliance with this order allows AMI to petition the court to "extinguish" the balance of the $611,627 judgment. AMI has paid the $304,891 as ordered; however, as of June 13, 2008, management has not petitioned the court for the aforementioned purpose.

In February 2007, AMI received funding from RepMar amounting to $2,000,000, of which $1,750,000 was used by AMI to fund the February 1, 2007 purchase of the leased aircraft per note 7.

From October 2007 to April 2008, AMI aircraft were grounded due to major repairs and overhauls. AMI received subsidies of $1,000,000 and $600,000, on January and March 2008, respectively, to assist with daily operations and to purchase critically needed parts.

In December 2007, the $1,000,000 bank loan was subsequently transferred to RepMar. AMI and RepMar are currently negotiating the terms of repayment and the applicable interest rate.