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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

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, 2006 and 2005, 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 AMI'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. Expendable parts enter materially into the determination of the results of operations for the year ended September 30, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had accounting records concerning expendable parts 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, 2006 and 2005, 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 agreements 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, 2006

Introduction

Our discussion and analysis of the Air Marshall Islands, Inc. (AMI) financial performance provides an overview of AMI's financial activities for the fiscal year ended September 30, 2006. This Management Discussion and Analysis (MD&A) is to be used in conjunction with the financial statements that follow this section. AMI is a component unit of the Republic of the Marshall Islands (RepMar) and was established as the official air carrier of the Government of the Republic of the Marshall Islands by virtue of a Corporate Charter granted by the Cabinet of the Marshall Islands on October 12, 1989. AMI subsequently merged with Airline of the Marshall Islands, Inc., with AMI being the surviving corporation, on January 26, 1990. AMI is governed by a six - member Board of Directors and presently, the Minister of Transportation and Communication is appointed as Chairperson of the Board.

Financial Highlights

Total assets amounted to $3,149,732 as at September 30, 2006 compared to $4,388,289 as at September 30, 2005. Receivables from affiliates were reduced to $26,415 in 2006 from $667,135 in 2005. The substantial reduction of receivables from affiliates was brought about by the series of payments made by RepMar for long outstanding accounts and continued efforts to reconcile accounts and collect them.

During the year ended September 30, 2006, the overhaul of Dash 8 engine was completed and fully paid in January 2006, with a total cost of $1,588,937. The engine was put into operation on February 7, 2006. For additional information concerning AMI's fixed assets, please refer to note 4 to the financial statements.

Statement of Net Assets

The statements of net assets and the related statements 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 is presented below:

	2006	2005	2004
Assets:			
Current and other assets	$ 1,288,343	$ 2,052,177	$ 2,455,847
Fixed assets, net	1,861,389	2,336,112	1,222,682
Total assets	$ 3,149,732	$ 4,388,289	$ 3,678,529
Liabilities:			
Current liabilities	$ 1,531,658	$ 1,789,111	$ 1,567,201
Non-current liabilities	2,538,012	2,365,545	1,050,000
Total liabilities	4,069,670	4,154,656	2,617,201
Net assets:			
Invested in capital assets	1,861,389	2,018,112	1,222,682
Unrestricted	(2,781,327)	(1,784,479)	(161,354)
Total net assets	(919,938)	233,633	1,061,328
	$ 3,149,732	$ 4,388,289	$ 3,678,529

For additional information concerning the above non-current liabilities, please refer to notes 5 and 6 to the financial statements.

A Memorandum of Agreement was made and entered into by AMI and RepMar, through the Ministry of Finance (MOF) on October 10, 2006, indicating a combined payment of $552,915 which was applied as full and final settlement of all RepMar outstanding debts owed to AMI as at October 1, 2005. The details of payments are as follows:

	Amount
November 03, 2005	$ 81,915
June 19, 2006	171,000
August 08, 2006	300,000
Total	$ 552,915

Based on the above agreement, a total of $528,296 was scheduled to be written-off. All transactions subject to the write-off were fully provided for in the 2006 financial statements.

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

	2006	2005	2004
Operating revenues:			
Passenger	$ 2,620,672	$ 2,816,119	$ 2,916,811
Cargo	455,438	444,403	573,230
Charter	338,393	280,821	286,902
Other	223,430	241,414	352,531
Total operating revenues	3,637,933	3,782,757	4,129,474
Less: provision for doubtful accounts	15,829	285,671	-
Total net operating revenues	3,622,104	3,497,086	4,129,474
Operating expenses:			
Flying operations	2,014,958	1,889,776	1,932,840
Maintenance	907,274	972,186	1,270,712
Depreciation and amortization	625,866	629,205	616,942
General and administrative	536,639	466,727	593,798
Promotion and sales	370,355	394,336	408,561
Aircraft and traffic servicing	250,268	282,771	330,021
Total operating expenses	4,705,360	4,635,001	5,152,874
Operating loss	(1,083,256)	(1,137,915)	(1,023,400)
Nonoperating income (expenses):			
Interest expense	(72,533)	(7,780)	-
Gain on disposal of plant and equipment	2,218	-	-
Other income	-	318,000	-
Total nonoperating (expenses) income, net	(70,315)	310,220	-
Change in net assets	$ (1,153,571)	$ (827,695)	$ (1,023,400)

The Statements of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items that affect the change in net assets. Operating revenues for 2006 showed a decrease of 3.9% or $144,824 from $3,782,757 in 2005 to $3,637,933 in 2006. Passengers carried and number of flights flown during 2006 compared to 2005 is as follows:

	Year		Difference	
	2006	2005	Amount	Percentage
No. of Flights	2,793	3,083	$ (290)	-9%
No. of Passengers	21,924	25,789	(3,865)	-15%
Aircraft Seat Miles	8,605,107	8,904,171	(299,064)	-3%

AMI management decided to increase passenger fares in September 2005 and this impacted revenues for 2006, thus negating the effect of the 15% decline in the number of passengers carried during the year.

Management's Discussion and Analysis for the year ended September 30, 2005, is set forth in AMI's report on the audit of financial statements, which is dated June 13, 2008. That Discussion and Analysis explains the major factors impacting the 2005 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 February 2, 2007, AMI bought one (1) DeHavilland DHC-8-102 aircraft, with registration number V7-0210, and two (2) Pratt & Whitney engines model 120A at a cost of $1,750,000. The base rent of $28,000 per month and non-base rent based on hours flown, that AMI paid to Finova Aviation Leasing Limited during the leased period, will reduce monthly operating expenses. The acquisition cost of the aircraft was funded by RepMar.

On November 29, 2006, the High Court of the Republic of the Marshall Islands decided a case in favor of Marshall Islands Social Security Administration against AMI in the amount of $611,628. However, AMI was ordered to pay $304,891, after which AMI may petition the court to amend the judgment to extinguish the remaining balance of $306,737.

On August 23, 2007, AMI entered into an engine lease agreement with International Turbine Service to lease an engine for the Dash 8. The leased engine shall replace the unserviceable engine PCE 120191 that was sent to Dallas Airmotive for overtemp inspection and hot section repair. The total cost of the repair is $257,500.

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, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash	$ 26,158	$ 42,592
Receivables:		
Trade	540,785	631,849
Employees	247,004	248,903
Affiliates (net of allowance for doubtful receivables of $429,663 and $515,410 at September 30, 2006 and 2005)	26,415	667,135
	814,204	1,547,887
Less allowance for doubtful receivables	(708,539)	(792,370)
Receivables, net	105,665	755,517
Expendable parts (net of allowance for obsolescence of $139,565 and $100,000 at September 30, 2006 and 2005)	548,714	626,443
Prepaid expenses and deposits	189,567	151,766
Total current assets	870,104	1,576,318
Advance to RepMar	352,239	475,859
Property and equipment, net	1,861,389	2,336,112
Deposit on equipment	66,000	-
	$ 3,149,732	$ 4,388,289

LIABILITIES AND NET ASSETS		
Current liabilities:		
Bank overdraft	$ -	$ 55,825
Current portion of long-term debt	210,814	405,324
Accounts payable	480,237	734,905
Air traffic liability	208,038	182,400
Accrued expenses	99,762	91,810
Payable to affiliates	532,807	318,847
Total current liabilities	1,531,658	1,789,111
Advances from RepMar	2,000,000	2,000,000
Long-term debt, net of current portion	538,012	365,545
Total liabilities	4,069,670	4,154,656
Commitments and contingencies		
Net assets:		
Invested in capital assets	1,861,389	2,018,112
Unrestricted	(2,781,327)	(1,784,479)
Total net assets	(919,938)	233,633
	$ 3,149,732	$ 4,388,289

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	2006	2005
Operating revenues:		
Passenger	$ 2,620,672	$ 2,816,119
Cargo	455,438	444,403
Charter	338,393	280,821
Other	223,430	241,414
Total operating revenues	3,637,933	3,782,757
Less provision for doubtful accounts	15,829	285,671
Total net operating revenues	3,622,104	3,497,086
Operating expenses:		
Flying operations	2,014,958	1,889,776
Maintenance	907,274	972,186
Depreciation and amortization	625,866	629,205
General and administrative	536,639	466,727
Promotion and sales	370,355	394,336
Aircraft and traffic servicing	250,268	282,771
Total operating expenses	4,705,360	4,635,001
Operating loss	(1,083,256)	(1,137,915)
Nonoperating (expenses) income:		
Interest expense	(72,533)	(7,780)
Gain on disposal of property and equipment	2,218	-
Other income	-	318,000
Total nonoperating (expenses) income, net	(70,315)	310,220
Change in net assets	(1,153,571)	(827,695)
Net assets at beginning of year	233,633	1,061,328
Net assets at end of year	$ (919,938)	$ 233,633

See accompanying notes to financial statements.

AIR MARSHALL ISLANDS, INC.

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from customers	$ 4,297,594	$ 3,080,231
Cash payments to suppliers for goods and services	(2,719,733)	(2,080,821)
Cash payments to employees for services	(1,299,069)	(1,388,439)
Net cash provided by (used for) operating activities	278,792	(389,029)
Cash flows from noncapital financing activities:		
Net borrowing (repayment) under bank overdraft arrangement	(55,825)	55,825
Net cash (used for) provided by noncapital financing activities	(55,825)	55,825
Cash flows from capital and related financing activities:		
Payments from acquisition of property and equipment	(175,997)	(1,424,635)
Proceeds from sale of property and equipment	27,072	-
Proceeds from issuance of long-term debt	198,000	800,000
Principal repayment of long-term debt	(220,043)	(29,131)
Interest paid on long-term debt	(68,433)	(7,780)
Proceeds from RepMar advance	-	950,000
Net cash (used in) provided by capital and related financing activities	(239,401)	288,454
Net change in cash	(16,434)	(44,750)
Cash at beginning of year	42,592	87,342
Cash at end of year	$ 26,158	$ 42,592
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	(1,083,256)	$ (1,137,915)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	625,866	629,205
Bad debts expense	15,829	285,671
Inventory obsolescence	39,565	-
(Increase) decrease in assets:		
Receivables:		
Affiliates	541,060	(92,586)
Trade	91,064	53,497
Employees	1,899	10,463
Expendable parts	38,164	(131,324)
Prepaid expenses and deposits	(37,801)	44,329
Advance to RepMar	123,620	188,870
Deposit on equipment	(66,000)	-
Increase (decrease) in liabilities:		
Accounts payable	(254,668)	342,101
Air traffic liability	25,638	(673,900)
Accrued expenses	3,852	11,643
Payable to affiliates	213,960	80,917
Net cash provided by (used for) operating activities	$ 278,792	$ (389,029)

AIR MARSHALL ISLANDS, INC.

Statements of Cash Flows, Continued
Years Ended September 30, 2006 and 2005

Summary of noncash financing activities:		
Refinancing of long-term debt:		
Proceeds from issuance of long-term debt	$ 696,864	$ -
Principal repayment of long-term debt	(696,864)	-
	$ -	$ -
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, 2006 and 2005, cash was $26,158 and $42,592, respectively, and the corresponding bank balances were $56,834 and $39,973, respectively. Of the bank balances as of September 30, 2006 and 2005, $9,581 and $14,529, 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 insurance 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 collectability 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, 2006 and 2005, the accumulated vacation leave liability totals $56,084 and $51,621 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2006, AMI implemented 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.

The implementation of these pronouncements did not have a material impact on the 2006 financial statements.

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.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. 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.

(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, 2006 and 2005 was as follows:

	2006			
	October 1, 2005	Additions	Retirements	September 30, 2006
Aircraft and improvements	$ 10,459,269	$ -	$ (22,777)	$ 10,436,492
Rotable spare parts	3,575,412	139,564	-	3,714,976
Plant and equipment	413,958	14,268	-	428,226
Office furniture and equipment	626,147	13,695	-	639,842
Motor vehicles	201,968	7,720	(22,500)	187,188
Building and improvements	9,137	750	-	9,887
	15,285,891	175,997	(45,277)	15,416,611
Less accumulated depreciation and amortization	(12,949,779)	(625,866)	20,423	(13,555,222)
	$ 2,336,112	$ (449,869)	$ (24,854)	$ 1,861,389

	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
Building 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

(5) Long-Term Debt

A schedule of AMI's long-term debt as of September 30, 2006 and 2005 is as follows:

	2006	2005
Note payable to bank, due on December 9, 2009, interest at 7.5%, payable in monthly installments of $21,638, including interest, collateralized by a time certificate of deposit (TCD) owned by MIDB and a guarantee by RepMar.	$ 748,826	$ -
Note payable to bank, due September 28, 2007, interest at 9.5%, payable in monthly installments of $18,408, plus interest, collateralized by a 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
Total long-term debt	748,826	770,869
Less current installments	210,814	405,324
	$ 538,012	$ 365,545

Future repayment commitments are as follows:

Year Ending September 30	Principal	Interest	Total
2007	$ 210,814	$ 48,838	$ 259,652
2008	227,085	32,567	259,652
2009	244,809	14,843	259,652
2010	66,118	801	66,919
	$ 748,826	$ 97,049	$ 845,875

Changes in long-term liabilities during the year ended September 30, 2006 was as follows:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Due Within One Year
Loans payable	$ 770,869	$ 894,864	$ (916,907)	$ 748,826	$ 210,814
Advances from RepMar	2,000,000	-	-	2,000,000	-
	$ 2,770,869	$ 894,864	$ (916,907)	$ 2,748,826	$ 210,814

(5) Long-Term Debt, Continued

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
Advances from RepMar	1,050,000	950,000	-	2,000,000	-
	$ 1,050,000	$ 1,750,000	$ (29,131)	$ 2,770,869	$ 405,324

(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, 2006 and 2005, AMI obtained advances totaling $-0- and $950,000, 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.

A summary of related party transactions as of and for the years ended September 30, 2006 and 2005 is as follows:

	2006			
	Receivables	Revenues	Payables	Expenses
RepMar	$ 332,499	$ 510,344	$ 83,999	$ -
Marshall Islands Social Security Administration	-	-	305,144	106,246
Marshall Islands National Telecommunications Authority	1,322	6,813	9,689	73,905
Marshalls Energy Company, Inc.	1,885	460	9,258	48,291
Other	120,372	6,698	124,717	-
	456,078	$ 524,315	$ 532,807	$ 228,442
Less allowance for doubtful receivables	(429,663)			
	$ 26,415			

(6) Related Party Transactions, Continued

	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			

During the year ended September 30, 2000, AMI advanced $1,750,000 to RepMar. AMI's liability for payroll taxes, totaling $123,620 and $188,870 during the years ended September 30, 2006 and 2005, 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 of $352,239 and $475,859 as of September 30, 2006 and 2005, respectively, will be applied against future payroll taxes withheld by AMI.

As of September 30, 2006 and 2005, AMI maintained a demand deposit account with an affiliated financial institution amounting to $3,284 and $10,854, respectively.

(7) Commitments and Contingencies

Commitments

AMI extended the aircraft lease agreement on December 16, 2005 for another three years, with a base rent of $28,000 per month from $33,000 the previous lease agreement. The minimum lease payment for the year ending September 30, 2007 is $112,000. As discussed in note 8, the leased aircraft was subsequently purchased in February 2007.

The lease also provides for additional rent expense based on hours flown. The additional rental expense attributed to non-base rent was $190,098 and $108,062 in 2006 and 2005, respectively.

AMI also leases 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	
2007	$ 114,059
2008	2,059
2009	2,059
2010	858
	$ 119,035

(7) Commitments and Contingencies, Continued

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, to be achieved through significant reductions in operating expenses.

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, 2006, 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 approximating $160,000 for attorney fees for services which 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 commenced during fiscal year 2006 upon completion of the overhaul.

(9) Subsequent Events

In November 2006, a court ordered AMI to pay delinquent social security contributions totaling $304,891 by May 15, 2007. Compliance with this order allows AMI to petition the court to extinguish the balance of a $611,627 judgment. AMI has paid the $304,891 as ordered; however, as of March 7, 2008, management has not petitioned the court for the aforementioned purpose.

In December 2006 and February 2007, AMI received funding from RepMar amounting to $100,000 and $2,000,000, respectively, of which $1,750,000 was used to fund the February 1, 2007 purchase of a previously leased aircraft.

From October 2007 to April 2008, AMI aircrafts were grounded due to major repairs and overhauls. AMI received subsidies, $1,000,000 and $600,000, on January and March 2008, respectively, to assist with the daily operations and the purchase of 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 applicable interest term.