MAJURO RESORT, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2003 AND 2002

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Majuro Resort, Inc.:

We have audited the accompanying statements of net assets of Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands, as of December 31, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of MRI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MRI as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the accompanying financial statements, MRI adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2004, on our consideration of MRI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

February 20, 2004

This section of the Majuro Resort, Inc. (MRI) annual financial report presents our discussion and analysis of MRI's financial performance during the fiscal year that ended on December 31, 2003. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

Net assets decreased by $672,088 or 8% from $7,970,506 in 2002 to $7,298,418 in 2003.

Operating revenues decreased by $458,692 or 17% from $2,721,288 in 2002 to $2,262,596 in 2003.

Total department operating profit decreased by $241,287 or 20% from $1,231,080 to $989,793 in 2003. As a percentage of total revenue, overall department operating profits for 2003 is basically the same as in 2002 although there was a decrease in overall gross operating profit.

Operating expenses decreased by $292,826 or 15% from $1,958,507 in 2002 to $1,665,681 in 2003.The decrease is attributed to the decline in general and administration expenses, maintenance expenses, sales and marketing fees, and management fees as a result of the decline in activity as reflected by lower rooms revenue, food & beverage revenue and telephone revenue which is attributed further to lower occupancy rates. A separate analysis is included elsewhere in this report for further information.

Financial Analysis

The Statement of Net Assets (page 8) and the Statement of Revenues, Expenses and Changes in Net Assets (page 9) provide an indication of MRI's financial condition. MRI's net assets reflect the difference between assets and liabilities.

A summary of MRI's Statement of Net Assets is presented below:

	2003	**2002**
Current and other assets	$ 229,859	$ 497,798
Capital assets	7,836,276	8,264,112
Total assets	8,066,135	8,761,910
Current liabilities	767,717	762,754
Non-current liabilities	0	28,650
Total liabilities	767,717	791,404
Net assets:		
Invested in capital assets	7,836,276	8,264,112
Unrestricted	(537,858)	(293,606)
Total net assets	$ 7,298,418	$ 7,970,506

As indicated above, total assets decreased by $695,775 or 8% from $8,761,910 in 2002 to $8,066,135 in 2003. This decline is represented by a decrease of $267,939 in current assets and a decrease of $427,836 in capital assets. The decrease in current assets reflects a decrease in cash balances, receivables, inventories and prepaid expenses.

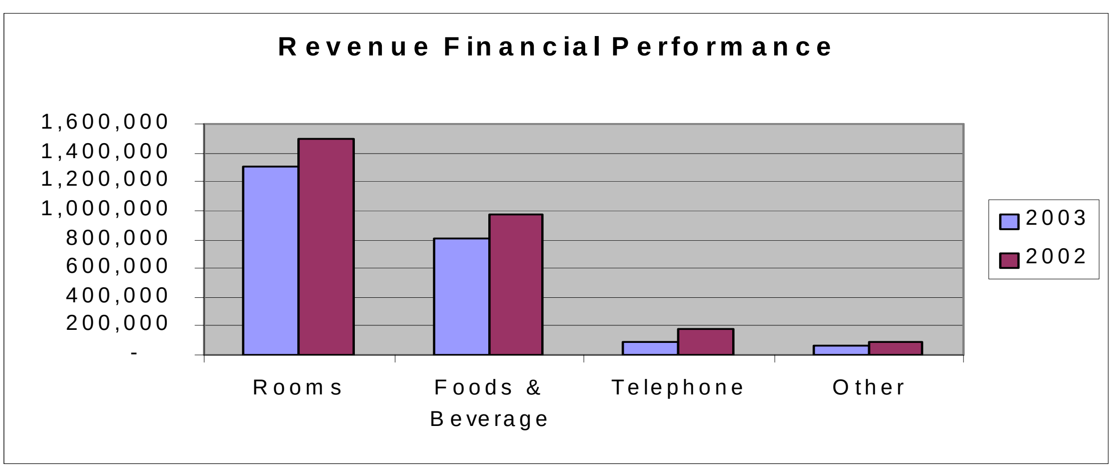
Total liabilities reflect a decrease of $23,687 or 3% from $791,404 in 2002 to $767,717 in 2003.

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

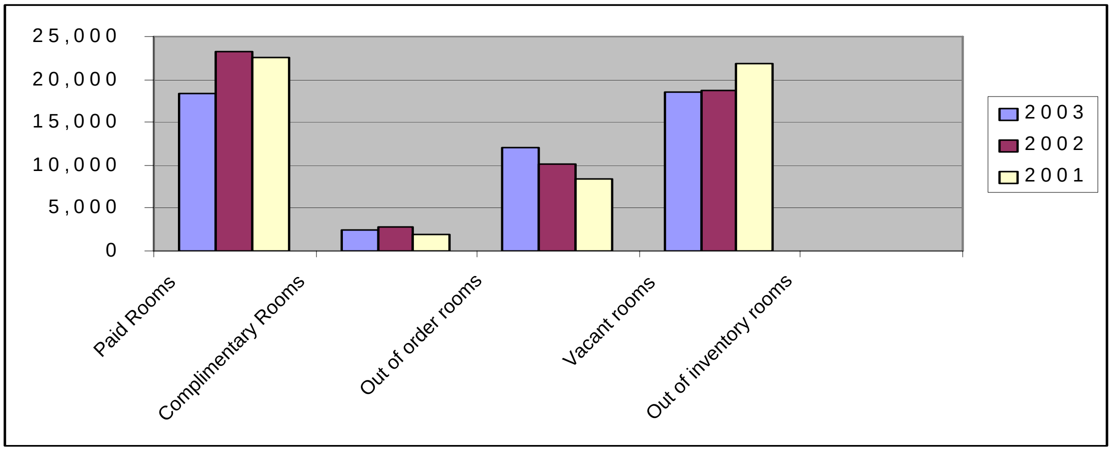
	2003	2002
Revenues:		
Rooms	$ 1,302,690	$ 1,491,744
Food & Beverage	800,220	967,462
Telephone	90,674	173,012
Others	69,012	89,070
	2,262,596	2,721,288
Cost of sales and services:		
Food & Beverage	818,073	960,522
Rooms	332,365	346,359
Telephone	72,083	129,518
Others	50,282	53,809
	1,272,803	1,490,208
Department Operating Profit:		
Rooms	970,325	1,145,385
Food & Beverage	(17,853)	6,940
Telephone	18,591	43,494
Others	18,730	35,261
Total Operating Profit	989,793	1,231,080
Operating expenses	(1,665,681)	(1,958,507)
Other income	3,800	0
Change in net assets	($ 672,088)	($ 727,427)

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items that impact the change in net assets. As stated above, MRI's total revenues decreased by $458,692 or 17% from $2,721,288 in 2002 to $2,262,596 in 2003. The decrease was a result of the decrease in room revenue, food and beverage revenue, and telephone as a result of lower occupancy rates during the period. The occupancy rate in 2003 was 40% as compared to 48% in 2002.

The graph below shows the major components of operating revenues for 2003 compared with 2002:



a.) Room statistics

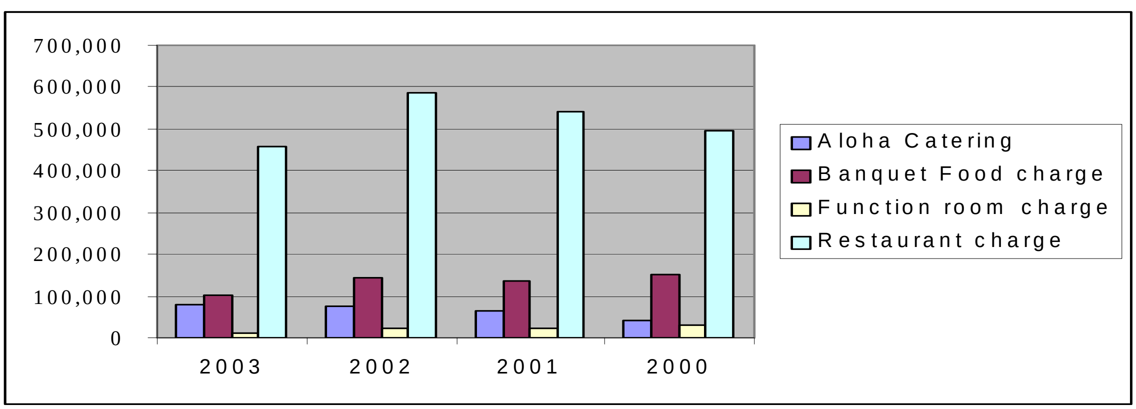


b.) Occupancy performance

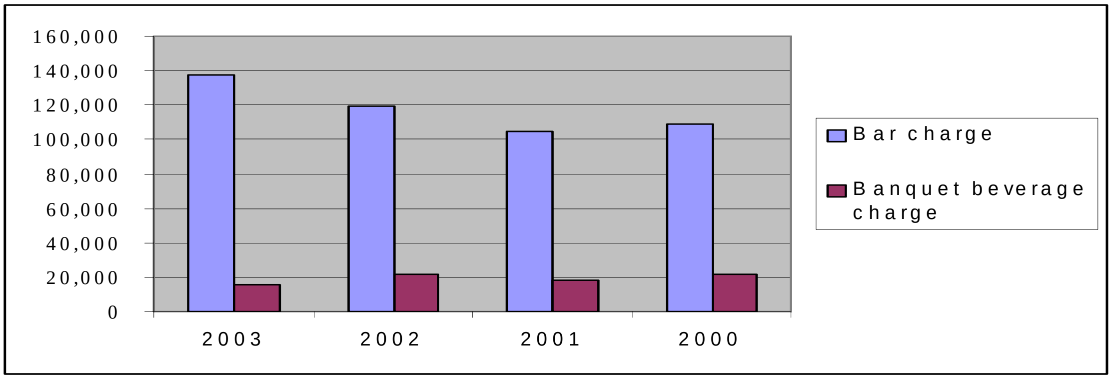
Occupancy Performance		2003		2002		2001		2000
% of total occupancy		**40.49%**		**47.51%**		**44.85%**		**38.05%**
Average rate	**$**	**62.02**	**$**	**57.01**	**$**	**59.89**	**$**	**58.12**
% of paid occupancy		**35.61%**		**42.35%**		**41.24%**		**33.82%**
Average rate	**$**	**70.50**	**$**	**63.96**	**$**	**65.13**	**$**	**65.38**
Group rooms		**585**		**0**		**2,286**		**1,469**
% of total occupancy		**1.14%**		**0.00%**		**4.18%**		**2.66%**
Average rate	**$**	**76.08**	**$**	**-**	**$**	**64.44**	**$**	**34.75**

The following graph provides comparison of MRI's food and beverage financial performance well as comparative statistical information supporting the overall revenue financial performance:

c.) Revenue Financial Performance



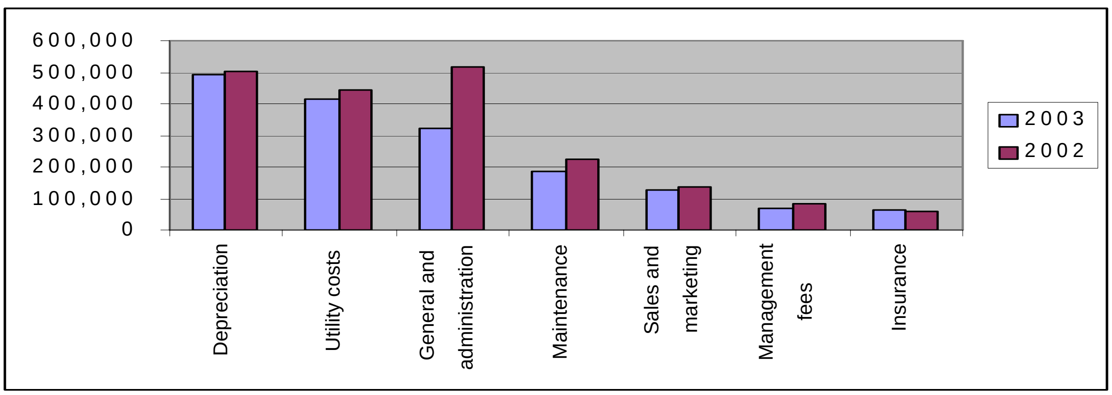
d.) Bar Revenue Financial Performance



Operating expenses

Total operating expenses decreased by $292,826 or 15% from $1,958,507 in 2002 to $1,665,681 in 2003. This was the result of a decrease in utility costs, general and administration expenses, maintenance costs, sales and marketing expenses, and management fees while maintaining the level of depreciation charges and insurance costs. Reduction in utility costs was a result of the decline in room occupancy that resulted in lower rooms revenue in 2003. Reduction in sales and marketing fees and management fees were a result of lower overall revenue in 2003.

The graph below shows the major components of operating expenses for 2003 compared with 2002:



Capital Assets

Net capital assets decreased by $427,836 mainly as a result of depreciation expense exceeding current year acquisition of equipment. A summary of MRI's capital assets is presented below:

	2003	**2002**
Building and structure	$ 11,069,517	$ 11,064,076
Furniture and fixtures	435,508	400,395
Office equipment	180,034	175,335
Other equipment	76,553	75,679
Motor vehicles	73,693	54,725
Property and equipment, at cost	11,835,305	11,770,210
Accumulated depreciation	3,999,029	3,506,098
Net book value	$ 7,836,276	$ 8,264,112

Economic Factors and Other Considerations

The following factors were considered in preparing MRI's budget for next year:

1.) An increase in the number of guests due to an anticipated growth in tourist arrivals. The increase in tourist arrivals is due to the marketing efforts of the Marshall Islands Visitors Authority, Rongelap Tourism Company, Inc., Yokwe Divers. Bikini Atoll Divers, Marshall Dive Adventures and BAKO Divers. Also, there is a proactive marketing effort focused on Japan by one of the local dive operators.

2.) An increase in both business and governmental guests due to the anticipated increase in economic activity due to the completion of the Compact of Free Association negotiations and the release of the Compact funds in fiscal year 2004.

3.) An increase in disposable income in the local community due to the increased economic activity resulting from an increase in construction and related activities resulting from the release of Compact funds.

4.) The promotion of Majuro as a destination for conventions and seminars.

5.) The potential impact of starting air service between Australia and Majuro.

6.) Marketing the hotel facilities to the local market through discounted room rates and other promotional activities focused at the local market.

Additional Financial Information

This discussion and analysis is designed to provide MRI's customers and other interested parties with an overview of MRI'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 Majuro Resort, Inc. General Manager at P.O. Box 3279, Majuro, MH 96960.

MAJURO RESORT, INC.

Statements of Net Assets
December 31, 2003 and 2002

ASSETS

	2003	2002
Current assets:		
Cash	$ 64,844	$ 174,563
Receivables:		
Accounts receivable	57,628	245,640
Affiliates	13,755	30,113
Other	1,130	1,828
	72,513	277,581
Less allowance for doubtful accounts	(28,961)	(111,690)
Total receivables, net	43,552	165,891
Inventories	86,054	101,367
Prepaid expenses	35,409	55,977
Total current assets	229,859	497,798
Property, plant and equipment, net	7,836,276	8,264,112
	$ 8,066,135	$ 8,761,910

LIABILITIES AND NET ASSETS

	2003	2002
Current liabilities:		
Accounts payable	$ 65,800	$ 69,879
Payable to affiliates	612,889	593,749
Accrued expenses	89,028	99,126
Total current liabilities	767,717	762,754
Payable to affiliates	-	28,650
Total liabilities	767,717	791,404
Commitment and contingencies		
Net assets:		
Investment in capital assets	7,836,276	8,264,112
Unrestricted	(537,858)	(293,606)
Total net assets	7,298,418	7,970,506
	$ 8,066,135	$ 8,761,910

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2003 and 2002

	2003	2002
Revenues:		
Rooms	$ 1,302,690	$ 1,491,744
Food and beverage	800,220	967,462
Telephone	90,674	173,012
Other	69,012	89,070
Total revenues	2,262,596	2,721,288
Cost of sales:		
Food and beverage	818,073	960,522
Rooms	332,365	346,359
Telephone	72,083	129,518
Other	50,282	53,809
Total cost of sales	1,272,803	1,490,208
Gross profit	989,793	1,231,080
Operating expenses:		
Depreciation	492,931	500,500
Utility costs	412,405	442,424
General and administrative expenses	319,645	515,475
Maintenance	184,274	224,546
Sales and marketing	127,097	135,155
Management fees	68,121	81,567
Insurance	61,208	58,840
Total operating expenses	1,665,681	1,958,507
Operating loss	(675,888)	(727,427)
Other income	3,800	-
Change in net assets	(672,088)	(727,427)
Net assets at beginning of year	7,970,506	8,697,933
Net assets at end of year	$ 7,298,418	$ 7,970,506

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Cash received from customers	$ 2,388,735	$ 2,828,012
Cash payments to suppliers for goods and services	(1,726,091)	(2,146,639)
Cash payments to employees for services	(707,268)	(706,045)
Net cash used for operating activities	(44,624)	(24,672)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(65,095)	(75,172)
Net cash used for capital and related financing activities	(65,095)	(75,172)
Net decrease in cash	(109,719)	(99,844)
Cash at beginning of year	174,563	274,407
Cash at end of year	$ 64,844	$ 174,563
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (675,888)	$ (727,427)
Other income	3,800	-
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	492,931	500,500
Bad debt expense	9,000	-
(Increase) decrease in assets:		
Receivables:		
Accounts receivable	96,283	2,518
Affiliates	16,358	93,028
Other	698	11,178
Inventories	15,313	8,077
Prepaid expenses	20,568	(15,270)
Increase (decrease) in liabilities:		
Accounts payable	(4,079)	35,803
Payable to affiliates	(9,510)	108,986
Accrued expenses	(10,098)	(42,065)
Net cash used for operating activities	$ (44,624)	$ (24,672)

See accompanying notes to financial statements.

(1) Organization

Majuro Resort, Inc. (MRI), a component unit of the Republic of the Marshall Islands (RepMar), was formed on November 8, 1995, as a corporation. The primary business of MRI is the operation of a 150 room hotel on the atoll of Majuro in the Republic of the Marshall Islands. MRI's Articles of Incorporation authorized the issuance of 2,000,000 shares of $10 par value common stock. On June 4, 1996, 1,101,500 shares of common stock were issued to RepMar in exchange for various payments made by RepMar on behalf of MRI. On August 20, 1996, an additional 30,022 shares of common stock were issued to the Marshall Islands Investment Development Fund (RMIIDF), a component unit of RepMar, in exchange for payments made by RMIIDF, on a note payable to bank, on behalf of MRI. MRI's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of MRI 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. MRI has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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 are recorded at the time liabilities are incurred.

(2) Summary of Significant Accounting Policies, Continued

Cash

For purpose of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of December 31, 2003 and 2002, the carrying amount of cash was $64,844 and $174,563, respectively, and the corresponding bank balances were $80,004 and $224,110, respectively. The bank balance amounts are maintained in one financial institution which is not subject to Federal Deposit Insurance Corporation insurance. MRI does not require collateralization of its cash deposits; therefore, deposit levels are uncollateralized.

Receivables

All receivables are uncollateralized and are due from hotel customers and others located within the Republic of the Marshall Islands and the South Pacific region. The allowance for doubtful accounts 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 bad debts charged to expense.

Inventories

Inventories consist of linen, chinaware, glassware, food and beverage items and are stated at the lower of cost (first-in, first-out method) or market value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets.

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 receipts tax of 3% on revenues.

Advertising Costs

MRI expenses advertising costs as incurred. During the years ended December 31, 2003 and 2002, MRI incurred advertising costs of $23,743 and $25,479, respectively.

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 benefits. As of December 31, 2003 and 2002, the accumulated vacation leave liability amounted to $24,940 and $30,793, respectively, and is included within the statements of net assets as accrued expenses.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

GASB has 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*, and modified by Statement No. 38, *Certain Financial Statement 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. MRI is required to adopt GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 in fiscal year 2003.

To conform to the requirements of GASB 34, the following changes have been made to MRI's financial statements:

- Retained earnings have been reclassified into the following net assets categories:

    - Investment 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.

- The statements of cash flows has been presented using the direct method.

Reclassifications

Certain accounts in the 2002 financial statements have been reclassified to conform with the 2003 presentation.

(3) Risk Management

MRI 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. MRI 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, Plant and Equipment

Property, plant and equipment as of December 31, 2003 and 2002, consist of the following:

	Estimated Useful Lives	Balance at January 1, 2003	Additions	Deletions	Balance at December 31, 2003
Building and structure	25 years	$ 11,064,076	$ 5,441	$ -	$ 11,069,517
Furniture and fixtures	3 years	400,395	35,113	-	435,508
Office equipment	3 years	175,335	4,699	-	180,034
Other equipment	3 years	75,679	874	-	76,553
Motor vehicles	3 years	54,725	18,968	-	73,693
		11,770,210	65,095	-	11,835,305
Less accumulated depreciation		(3,506,098)	(492,931)	-	(3,999,029)
		$ 8,264,112	$ (427,836)	$ -	$ 7,836,276

	Estimated Useful Lives	Balance at January 1, 2002	Additions	Deletions	Balance at December 31, 2002
Building and structure	25 years	$ 11,021,364	$ 42,712	$ -	$ 11,064,076
Furniture and fixtures	3 years	377,639	22,756	-	400,395
Office equipment	3 years	169,935	5,400	-	175,335
Other equipment	3 years	72,375	3,304	-	75,679
Motor vehicles	3 years	69,904	-	(15,179)	54,725
		11,711,217	74,172	(15,179)	11,770,210
Less accumulated depreciation		(3,021,777)	(499,500)	15,179	(3,506,098)
		$ 8,689,440	$ (425,328)	$ -	$ 8,264,112

(5) Related Party Transactions

MRI entered into a Hotel Management Agreement (the Agreement) with Outrigger Pacific, Inc. (OPI), formerly Outrigger Hotels & Resorts, effective June 1, 1996. The Agreement is for an initial term of five years, with automatic extensions of successive one year terms, unless terminated in writing by either party. On April 11, 2001, the Board of Directors passed a resolution to extend the Agreement with OPI from January 1, 2001 through December 31, 2006. Pursuant to the Agreement, OPI is to operate the hotel owned by MRI and all of its facilities and activities in accordance with the management standards of “First Class” (three to four star) resort hotels. All hotel expenses incurred by OPI are to be borne by MRI. Additionally, central office services may be provided by OPI, and these will be reimbursed by MRI. MRI has also agreed to reimburse OPI for expenses made on behalf of MRI. During the years ended December 31, 2003 and 2002, $59,100 and $102,083, respectively, was paid by MRI to OPI as reimbursement for expenses incurred, central office services provided and expenses made on behalf of MRI.

As of December 31, 2003 and 2002, MRI was liable to OPI for reimbursement of expenses incurred of $-0- and $4,678, respectively, which is recorded as accrued expenses in the accompanying financial statements.

(5) Related Party Transactions, Continued

The Agreement provides for payments to OPI of a base management fee equal to three percent of gross revenues, a marketing fee equal to two percent of room revenues, and an incentive management fee equal to five percent of the net available cash flow for each fiscal year. During the years ended December 31, 2003 and 2002, MRI recorded base management fees of $68,121 and $81,567, respectively, and marketing fees of $25,945 and $29,835, respectively, in accordance with the Agreement. There were no incentive management fees for the years ended December 31, 2003 and 2002. As of December 31, 2003 and 2002, MRI was liable to OPI for base management fees of $4,071 and $5,085, respectively, and marketing fees of $1,429 and $1,794, respectively, which are recorded as accrued expenses in the accompanying financial statements.

MRI is owned by RepMar and RMIIDF, and is therefore affiliated with all RepMar-owned and affiliated entities.

MRI's hotel service is provided to RepMar and all RepMar-owned and affiliated entities. Services are provided to these entities at the same rates charged to third parties; however, MRI provides more favorable payment terms to its affiliates than those afforded to third parties.

MRI utilizes services from certain affiliated entities at substantially more favorable terms than those incurred from third parties.

A summary of related party transactions for the years ended December 31, 2003 and 2002 and the related receivable and payable balances as of December 31, 2003 and 2002, are as follows:

	2003			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 111,162	$ 68,862	$ 12,825	$ 473,696
Air Marshall Islands, Inc.	24,554	-	128	-
Marshalls Energy Company, Inc.	4,144	364,190	-	49,977
Marshall Islands National Telecommunications Authority	3,257	123,029	330	11,358
Marshall Islands Social Security Administration	114	66,563	-	60,297
Majuro Water and Sewer Company, Inc.	-	48,215	-	16,549
Other	3,332	-	472	1,012
	$ 146,563	$ 670,859	$ 13,755	$ 612,889

	2002			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 192,785	$ 83,216	$ 20,697	$ 487,116
Air Marshall Islands, Inc.	8,243	-	4,128	-
Marshalls Energy Company, Inc.	12,143	392,427	1,436	29,908
Marshall Islands National Telecommunications Authority	4,368	172,800	680	-
Marshall Islands Social Security Administration	1,334	72,625	-	99,218
Majuro Water and Sewer Company, Inc.	5,068	49,997	208	6,157
Other	21,649	-	2,964	-
	$ 245,590	$ 771,065	$ 30,113	$ 622,399

(5) Related Party Transactions, Continued

Receivables from affiliates are uncollateralized, interest free and have no set repayment terms.

On November 24, 2000, MRI entered into a promissory note agreement with the Marshall Islands Social Security Administration for the repayment of certain delinquent payroll taxes and related penalties and interest in the amount of $139,020. The note is due on or before November 30, 2004 and is payable in monthly installments of $2,607, with an initial payment of $13,902. As of December 31, 2003 and 2002, the balance of the note amounted to $28,650 and $59,905, respectively. The balance is recorded as payable to affiliates in the accompanying financial statements. Future repayment commitments for this promissory note amount to $28,650 for the year ending December 31, 2004.

As of December 31, 2003 and 2002, MRI maintained demand deposit accounts with a related financial institution with a bank balance of $80,004 and $224,110, respectively.

(6) Commitment and Contingencies

Commitment

MRI leases the land on which the hotel is situated at the rate of $10,212 per year plus 2.5% of gross revenue earned. These payments are suspended until such time as 75% of the ownership of the lessee, or its successor in the interest in the hotel, is held by any person or entity other than RepMar or any agency thereof. The lease agreement also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. No shares have been issued to the lessor by either MRI or RepMar at December 31, 2003 and 2002.

Contingencies

MRI has incurred net losses since inception. MRI depends on RepMar for cash funding to continue its operations. Although RepMar has provided funding in the past, MRI does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of MRI's operations and its ability to provide working capital is dependent upon the future financial support of RepMar and/or significant improvements in operations.

MRI has entered into a management agreement with OPI for an initial term of five years, commencing June 1, 1996 and was subsequently extended on January 1, 2001 (see note 5). Pursuant to this agreement, RepMar is to provide the operator of the hotel (OPI) with cash reasonably required to finance and support the uninterrupted and efficient operation of the hotel and the performance of OPI under this agreement. The agreement states that at no time shall the amount of working capital available to OPI be less than $100,000. MRI depends on RepMar for the provision of working capital.

(7) Subsequent Event

OPI terminated its management contract with MRI effective February 20, 2004. RepMar entered into a Memorandum of Agreement with a third party effective February 19, 2004 for the purpose of assuming the management and operation of Majuro Resort, Inc. The agreement includes the forgiveness of certain taxes payable by MRI. As of December 31, 2003, these taxes payable amounted to $434,206. Forgiveness of these taxes payable is contingent upon the negotiation of a formal Joint Venture Agreement with the third party. As of February 20, 2004, no formal Joint Venture Agreement has been executed.