MAJURO RESORT, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2004 AND 2003

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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, 2004 and 2003, 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 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 MRI'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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MRI as of December 31, 2004 and 2003, 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 explained in Note 5, these financial statements have been prepared under the terms of a Memorandum of Agreement dated February 19, 2004. Should this agreement be modified, the accompanying financial statements may be materially impacted.

The Management's Discussion and Analysis on pages 3 through 8 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 MRI'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 July 27, 2005, 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 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

July 27, 2005

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, 2004. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

Net assets decreased by $5,323,115 or 73% from $7,298,418 in 2003 to $1,975,303 in 2004. The decrease is primarily due to the write down of capital assets of $5,590,012, which was offset by a nominal increase in non-capital assets.

Operating revenues decreased by $367,221 or 16% from $2,262,596 in 2003 to $1,895,375 in 2004. The decrease in revenue is due to a decrease in room revenue of $262,768 due to a decrease in occupancy, the decrease in food and beverage revenue of $36,569 and decrease in telephone and other revenue of $67,884. The paid occupancy decreased from 35.61% in 2003 to 28.87% in 2004.

Total department operating profit decreased by $186,438 or 19% from $989,793 in 2003 to $803,355 in 2004. As a percentage of the total revenue, overall department operating profit for 2004 remain basically the same as in 2003 although there was a decrease in the absolute overall operating profit from 2003.

Operating expenses increased by $4,980,841 or 299% from $1,665,681in 2003 to $6,646,522 in 2004. The increase was due to the recognition of loss arising from the impairment in the carrying amount of the hotel's property and equipment amounting to $5,590,012. This amount was partly offset by a decline in general and administration expenses, maintenance expenses, sales and marketing fees, and management fees as a result of the decline in activity reflected by lower rooms revenue, food & beverage revenue and telephone revenue which is attributed further to lower occupancy during the year. A separate analysis is included elsewhere in this report for further information.

Financial Analysis

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

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

	2004	2003
Current and other assets	$ 248,695	$ 229,859
Capital assets	2,195,875	7,836,276
Total assets	2,444,570	8,066,135
Current liabilities	451,316	767,717
Non-current liabilities	17,951	-
Total liabilities	469,267	767,717
Net assets:		
Invested in capital assets	2,195,875	7,836,276
Unrestricted	(220,572)	(537,858)
Total net assets	$ 1,975,303	$ 7,298,418

MAJURO RESORT, INC.

Management's Discussion and Analysis
Year Ended December 31, 2004

As indicated above, total assets decreased by $5,621,565 or 70% from $8,066,135 in 2003 to $2,444,570 in 2004. This decline was represented by a decrease of $5,640,401 in capital assets due to impairment of the value of the hotel premises and equipment resulting in the recognition of an impairment loss of $5,590,012 in 2004. The decrease was partly offset by an increase in current assets arising from the higher accounts receivable from customers at the end of 2004.

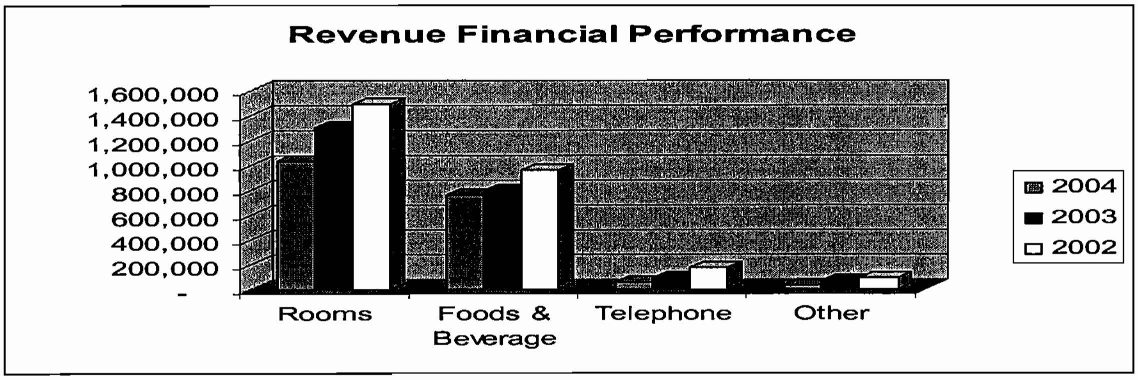
Total liabilities reported a decrease of $298,450 or 39% from $767,717 in 2003 to $469,267 in 2004.

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

	2004	2003
Revenues:		
Rooms	$ 1,039,922	$ 1,302,690
Food & Beverage	763,651	800,220
Telephone	58,225	90,674
Others	33,577	69,012
	1,895,375	2,262,596
Cost of sales and services:		
Rooms	752,175	818,073
Food & Beverage	305,963	332,365
Telephone	32,275	72,083
Others	1,607	50,282
	1,092,020	1,272,803
Department Gross Profit:		
Rooms	287,747	484,617
Food & Beverage	457,688	467,855
Telephone	25,950	18,591
Others	31,970	18,730
Gross Profit	803,355	989,793
Operating expenses	(6,646,522)	(1,665,681)
Other income	520,052	3,800
Change in net assets	$ (5,323,115)	$ (672,088)

The Statement of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items that impact the change in net assets. Based on the above, the hotel's total revenues decreased by $367,221 or 16% from $2,262,596 in 2003 to $1,895,375 in 2004. The decrease was a result of a decline in room occupancy, which had a direct impact on room's revenue, food and beverage revenue, and telephone. Occupancy rate in 2004 is 30% as compared to 40% in 2003.

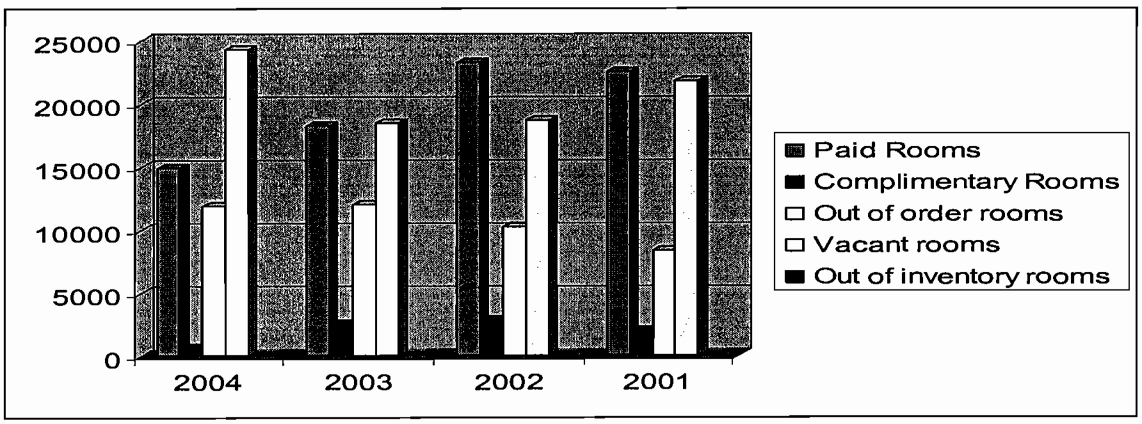
The following graph shows the major components of revenue for 2004 with comparison for 2003:



Rooms Revenue

The following graphs show a comparison of financial and statistical information affecting the room revenue performance for the year 2004 going as far back to 2001:

a.) Room statistics



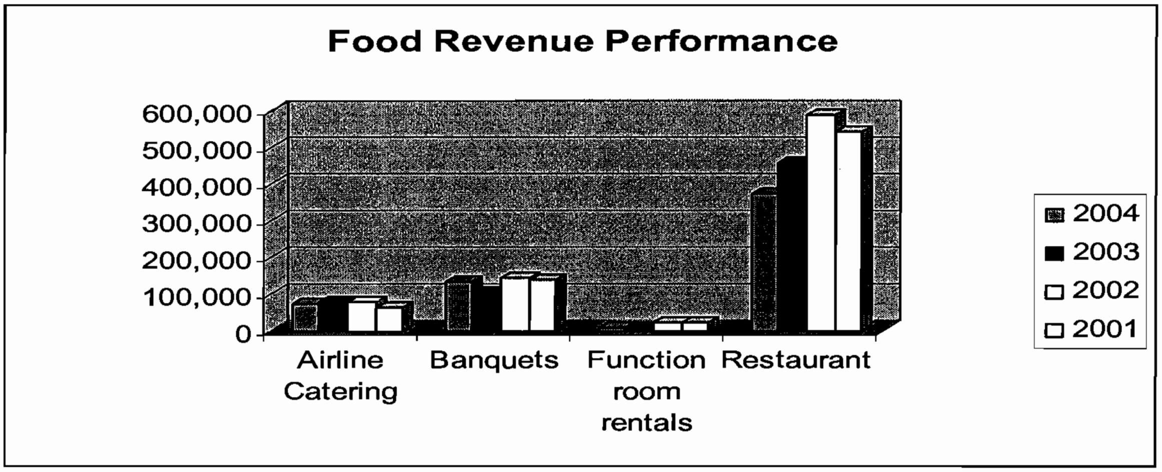
b.) Occupancy performance

Occupancy Performance		2004		2003		2002		2001		2000
% of total occupancy		30.12%		40.49%		47.51%		44.85%		38.05%
Average rate	$	67.14	$	62.02	$	57.01	$	59.89	$	58.12
% of paid occupancy		28.87%		35.61%		42.35%		41.24%		33.82%
Average rate	$	70.04	$	70.50	$	63.96	$	65.13	$	65.38
Group rooms		883		585		0		2,286		1,469
% of total occupancy		1.70%		1.14%		0.00%		4.18%		2.66%
Average rate	$	82.00	$	76.08	$	-	$	64.44	$	34.75

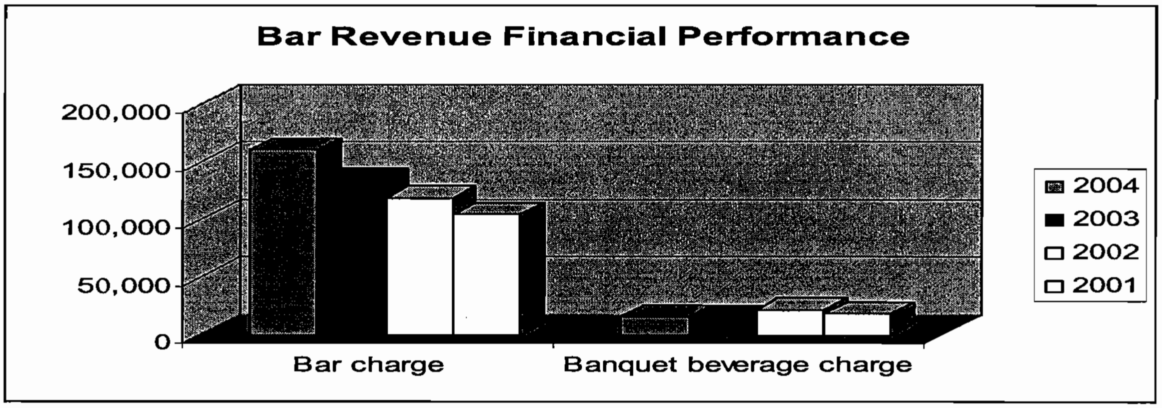
Food and Beverage

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

a.) Food Revenue Financial Performance



b.) Bar Revenue Financial Performance

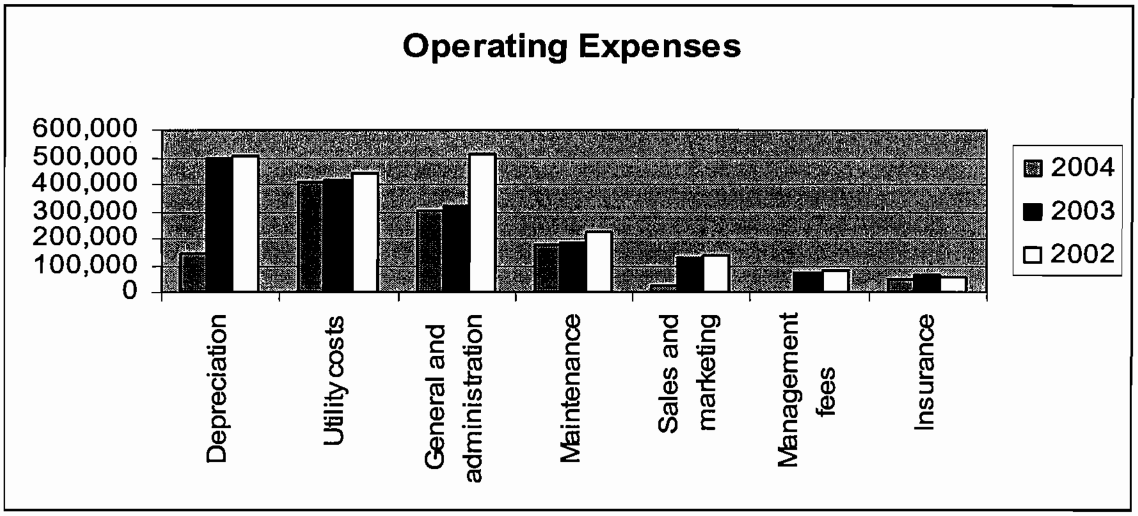


Operating expenses

Total operating expenses increased by $4,980,841 or 299% from $1,665,681 in 2003 to $6,646,522 in 2004. The increase was a result of the recognition of a loss arising from the impairment in the carrying amount of the hotel's property and equipment amounting to $5,590,012.

Other major components of operating expenses such as utility costs, general and administration expenses, maintenance costs did not post significant increases or decreases from 2003. Sales and marketing costs and management fees posted significant decline from 2003 as a direct result of the termination of management contract between Outrigger Pacific, Inc. (OPI) and Republic of the Marshall Islands. OPI accounts for a significant portion of the sales and marketing fees and all of the management fees reported in 2003.

Except for impairment loss, the graph below shows the major components of operating expenses for 2004 compared with 2003:



Capital Assets

Net capital assets decreased by $5,640,401 mainly as a result of the write down of the cost of the hotel premises. The write down of Capital Assets was based on the appraisal report issued by G.T. Foster & Associates, Ltd., dated October 18, 2004. Total impairment loss for the year amounted to $5,590,012.

A summary of MRI's capital assets is presented below:

	2004	2003
Building and structure	$ 1,516,979	$ 11,069,517
Furniture and fixtures	487,301	435,508
Office equipment	180,034	180,034
Other equipment	80,303	76,553
Motor vehicles	73,693	73,693
Property and equipment, at cost	2,338,310	11,835,305
Accumulated depreciation	142,435	3,999,029
Net book value	$ 2,195,875	$ 7,836,276

Economic Factors and Next Year's rates

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

1.) An increase in the number of guests due to an anticipated growth in tourist arrivals brought about by efforts of the Marshall Islands Visitors Authority (MIVA) and local dive operators to promote the Marshall Islands as a favorite dive destination. The dive operator promotions, in 2004 and in 2005, have attracted a number of dive wholesalers and dive operators from both Australia and the U.S.

2.) An increase in room occupancy due to anticipated increase in special flights from international carriers serving the Marshall Islands and Micronesia, such as JAL. JAL has expressed interest in providing charter services to the Marshall Islands. In addition, several other carriers have made some preliminary inquiries. The increase in special flights and the capacity of Continental Airlines should more than offset the loss of passengers deplaning in Majuro due to the termination of service by Aloha Airlines.

3.) A continued growth in guest arrivals brought about by the service provided by Air Nauru between Majuro and Australia.

4.) 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 Compact funds.

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

6.) Increased marketing effort to promote the hotel's facilities to the local market through discounted room rates and other promotional activities to attract the local market.

Additional Financial Information

The 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, 2004 and 2003

ASSETS	2004	2003
Current assets:		
Cash	$ 53,428	$ 64,844
Receivables:		
Trade	133,955	57,628
Affiliates	26,482	13,755
Other	1,130	1,130
	161,567	72,513
Less allowance for doubtful accounts	(82,153)	(28,961)
Total receivables, net	79,414	43,552
Inventories	76,769	86,054
Prepaid expenses	39,084	35,409
Total current assets	248,695	229,859
Property, plant and equipment, net	2,195,875	7,836,276
	$ 2,444,570	$ 8,066,135

LIABILITIES AND STOCKHOLDER'S EQUITY	2004	2003
Current liabilities:		
Accounts payable	$ 44,638	$ 65,800
Payable to affiliates	293,877	612,889
Accrued expenses	112,801	89,028
Total current liabilities	451,316	767,717
Payable to affiliates	17,951	-
Total liabilities	469,267	767,717
Commitment and contingencies		
Net assets:		
Invested in capital assets	2,195,875	7,836,276
Unrestricted	(220,572)	(537,858)
Total net assets	1,975,303	7,298,418
	$ 2,444,570	$ 8,066,135

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2004 and 2003

	2004	2003
Revenues:		
Rooms	$ 1,039,922	$ 1,302,690
Food and beverage	763,651	800,220
Telephone	58,225	90,674
Other	33,577	69,012
Total revenues	1,895,375	2,262,596
Cost of sales:		
Food and beverage	752,175	818,073
Rooms	305,963	332,365
Telephone	32,275	72,083
Other	1,607	50,282
Total cost of sales	1,092,020	1,272,803
Gross profit	803,355	989,793
Operating expenses:		
Impairment loss	5,590,012	-
Utility costs	383,066	412,405
General and administrative	301,172	319,645
Maintenance	160,137	184,274
Depreciation	141,435	492,931
Insurance	50,436	61,208
Sales and marketing	20,264	127,097
Management fees	-	68,121
Total operating expenses	6,646,522	1,665,681
Operating loss	(5,843,167)	(675,888)
Other income (expense), net	520,052	3,800
Change in net assets	(5,323,115)	(672,088)
Net assets at beginning of year	7,298,418	7,970,506
Net assets at end of year	$ 1,975,303	$ 7,298,418

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from customers	$ 1,806,321	$ 2,388,735
Cash payments to suppliers for goods and services	(1,144,992)	(1,726,091)
Cash payments to employees for services	(556,639)	(707,268)
Net cash provided by (used for) operating activities	104,690	(44,624)
Cash flows from noncapital financing activities:		
Interest paid on promissory note	(25,060)	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(91,046)	(65,095)
Net change in cash	(11,416)	(109,719)
Cash at beginning of year	64,844	174,563
Cash at end of year	$ 53,428	$ 64,844
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (5,843,167)	$ (675,888)
Other income	-	3,800
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	141,435	492,931
Bad debt expense	53,192	9,000
Impairment loss	5,590,012	-
(Increase) decrease in assets:		
Receivables:		
Trade	(76,327)	96,283
Affiliates	(12,727)	16,358
Other	-	698
Inventories	9,285	15,313
Prepaid expenses	(3,675)	20,568
Increase (decrease) in liabilities:		
Accounts payable	(21,162)	(4,079)
Payable to affiliates	244,051	(9,510)
Accrued expenses	23,773	(10,098)
Net cash provided by (used for) operating activities	$ 104,690	$ (44,624)

Summary disclosure of noncash items:

During the year ended December 31, 2004, a $545,112 contribution from RepMar was recorded with a corresponding decrease in payable to affiliates.

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 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.

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 modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, MRI's equity is presented in the following net assets 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.

New Accounting Standards

During fiscal year 2004, MRI implemented GASB Statement No. 42, *Accounting and Financial for Impairment of Capital assets and for Insurance Recoveries.* GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. The effect of implementing this Statement was the recognition of an impairment loss of $5,590,012.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

For fiscal year 2005, MRI will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of MRI.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1.* GASB Statement No. 44 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. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of MRI.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment 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, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of MRI.

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, 2004 and 2003, the carrying amount of cash was $53,428 and $64,844, respectively, and the corresponding bank balances were $62,344 and $80,004, respectively. As of December 31, 2004 and 2003, bank balances in the amount of $2,791 and $-0-, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remainder being maintained in a non-FDIC financial institution. MRI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage 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 with a cost that equals or exceeds $100 are capitalized. Such assets 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, 2004 and 2003, MRI incurred advertising costs of $22,814 and $23,743, 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, 2004 and 2003, the accumulated vacation leave liability amounted to $21,304 and $24,940, respectively, and is included within the statements of net assets as accrued expenses.

(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, 2004 and 2003, consist of the following:

	Estimated Useful Lives	Balance at January 1, 2004	Additions	Write-downs and Deletions	Balance at December 31, 2004
Building and structure	25 years	$ 11,069,517	$ 35,503	$ (9,588,041)	$ 1,516,979
Furniture and fixtures	3 years	435,508	51,793	-	487,301
Office equipment	3 years	180,034	-	-	180,034
Other equipment	3 years	76,553	3,750	-	80,303
Motor vehicles	3 years	73,693	-	-	73,693
		11,835,305	91,046	(9,588,041)	2,338,310
Less accumulated depreciation		(3,999,029)	(141,435)	3,998,029	(142,435)
		$ 7,836,276	$ (50,389)	$ (5,590,012)	$ 2,195,875

	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

(5) Related Party Transactions

MRI is a component unit of RepMar 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.

(5) Related Party Transactions, Continued

A summary of related party transactions for the years ended December 31, 2004 and 2003 and the related receivable and payable balances as of December 31, 2004 and 2003, are as follows:

	2004			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 49,587	$ -	$ 17,230	$ 12,917
Air Marshall Islands, Inc.	22,970	-	128	-
Marshalls Energy Company, Inc.	-	339,511	1,417	68,083
Marshall Islands National Telecommunications Authority	-	79,452	180	26,633
Marshall Islands Social Security Administration	-	-	-	97,076
Majuro Water and Sewer Company, Inc.	-	43,555	-	8,453
Other	11,822	-	2,206	16
	$ 84,379	$ 462,518	$ 21,161	$ 213,178

	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

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

On April 2, 2004, 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 $90,774. The note is due on or before April 30, 2007 and is payable in monthly installments of $3,000. As of December 31, 2004 and 2003, the balance of the note amounted to $66,619 and $28,650, respectively. Repayment commitments for the year ended December 31, 2006 amount to $17,951 as of December 31, 2004.

(5) Related Party Transactions, Continued

Changes in long-term liability for the years ended December 31, 2004 and 2003, are as follows:

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004	Due within one year
MISSA promissory note	$ 28,650	$ 90,774	$ (52,805)	$ 66,619	$ 48,668

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003	Due within one year
MISSA promissory note	$ 59,905	$ -	$ (31,255)	$ 28,650	$ 28,650

As of December 31, 2004 and 2003, MRI maintained demand deposit accounts with a related financial institution with a bank balance of $59,563 and $80,004, respectively.

MRI entered into a Hotel Management Agreement (the Agreement) with Outrigger Pacific, Inc. (OPI), formerly Outrigger Hotels & Resorts, effective June 1, 1996. The Agreement was 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 was 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 were to be borne by MRI. Additionally, central office services may be provided by OPI, and these were to be reimbursed by MRI. MRI had also agreed to reimburse OPI for expenses made on behalf of MRI. During the years ended December 31, 2004 and 2003, $-0- and $59,100, respectively, was paid by MRI to OPI as reimbursement for expenses incurred, central office services provided and expenses made on behalf of MRI.

The Agreement provided 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, 2004 and 2003, MRI recorded base management fees of $-0- and $68,121, respectively, and marketing fees of $-0- and $25,945, respectively, in accordance with the Agreement. There were no incentive management fees for the years ended December 31, 2004 and 2003. As of December 31, 2004 and 2003, MRI was liable to OPI for base management fees of $-0- and $4,071, respectively, and marketing fees of $-0- and $1,429, respectively, which are recorded as accrued expenses in the accompanying financial statements.

(5) Related Party Transactions, Continued

On February 20, 2004, OPI terminated their management contract with MRI. RepMar entered into a Memorandum of Agreement with Pacific International, Inc. (PII) effective February 19, 2004 for the purpose of assuming the management and operation of the hotel. The agreement includes the forgiveness of certain taxes payable by MRI. As of December 31, 2004, these taxes payable amounted to $545,112, which is recorded in other income/(expense) in the accompanying financial statements. Forgiveness of these taxes is contingent upon the negotiation of a formal Joint Venture Agreement with the third party. As of July 27, 2005, no formal Joint Venture Agreement has been executed; however, management has reflected such taxes as a subsidy from RepMar in accordance with the Memorandum of Agreement in the accompanying financial statements.

As of December 31, 2004, receivables and payables to PII and its affiliates are as follows:

	Receivables	Payables
PII	$ 4,781	$ 56,953
Triple J/Payless Supermarket	540	39,559
Pacific Wheels	-	2,138
	$ 5,321	$ 98,650

(6) Commitment and Contingency

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 any person or entity other than RepMar or any agency thereof holds 75% of the ownership of the lessee, or its successor in the interest in the hotel. The lease agreement also requires that 5% of the initial outstanding shares of the lessee or its successor be issued to the lessor. Either MRI or RepMar has issued no shares to the lessor at December 31, 2004 and 2003.

Contingency

MRI has incurred net losses since inception. RepMar has provided funding in the past; however, 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 final settlement of the terms and conditions of the Memorandum of Agreement between PII and RepMar, significant improvements in operations and future financial support by RepMar, if required.