MAJURO RESORT, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2006
AND NINE MONTHS ENDED
SEPTEMBER 30, 2005

Deloitte.

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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 September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year ended September 30, 2006 and for the nine months ended September 30, 2005. 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 September 30, 2006 and 2005, and the results of its operations and its cash flows for the year ended September 30, 2006 and for the nine months ended September 30, 2005 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 6 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 October 1, 2007, on our consideration of MRI'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

October 1, 2007

MAJURO RESORT, INC.

Management's Discussion and Analysis
Year Ended September 30, 2006

This section of the Majuro Resort, Inc. (MRI) annual financial report presents our discussion and analysis of MRI's financial performance for the fiscal year that ended on September 30, 2006. This discussion and analysis should be read in conjunction with the financial statements which follow this section.

Financial Highlights

Net assets decreased by $289,342 or 15% from $1,992,114 in 2005 to $1,702,772 in 2006. The decrease is primarily due to decrease in the cash reserves at the end of the fiscal year by $70,083, decrease in the net capital assets by $108,794, and increase in accrued expenses by $99,191.

Operating revenues for the full twelve-month period was $2,272,971. On a full year basis, 2006 operating revenues decreased by $240,521 or 10% compared to 2005 operating revenues. However, compared to 2004 operating revenues, there was an increase of $387,852 or 21%. The decrease over 2005 average monthly operating revenues can be attributed to lower room occupancy for the year which also indirectly affected the results of operations of the food and beverage department.

Total departmental operating profit for the full twelve-month period was at $870,637 while 2005 departmental profit over nine-month period was at $835,514. On an average basis, 2006 departmental profit declined by $243,382 compared to 2005. However, this represents an improvement over 2004, which is a full twelve-month period, by $67,282 or 8%. As a percentage of total revenues, overall departmental operating profit for 2006 was 38% which is 6% lower than 2005 and 4% lower than 2004.

Operating expenses for 2006 amounted to $1,151,748 representing 51% of Operating Revenues. As a percentage of total revenues, this represents an increase by 8% compared to 2005 but a decrease of 5% compared to 2004. The increase in the operating expenses was due to increase in building maintenance costs coupled with increase in energy costs during the year.

Financial Analysis

The Statements of Net Assets and the Statements 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 Statements of Net Assets is presented below:

		2006		2005		2004
Current and Other assets	$	365,390	$	379,260	$	248,695
Capital Assets		2,093,287		2,202,081		2,195,875
Total Assets	$	2,458,677	$	2,581,341	$	2,444,570
Current Liabilities	$	755,905	$	575,918	$	451,316
Non-current Liabilities		-		13,309		17,951
Total Liabilities		755,905		589,227		469,267
Net Assets:						
Invested in Capital Assets		2,093,287		2,202,081		2,195,875
Unrestricted		(390,515)		(209,967)		(220,572)
Total Net Assets		1,702,772		1,992,114		1,975,303
	$	2,458,677	$	2,581,341	$	2,444,570

Total assets as of September 30, 2006 decreased by $289,342 or 15% from $1,992,114 in 2005 to $1,702,772 in 2006. The decrease was mainly attributable to decrease in cash reserves by $70,083 and decrease in net book value of capital assets by $108,794 due to depreciation. However, total accounts receivable balance increased by $54,304.

On the other hand, total liabilities increased by $166,678 or 28% from $589,227 in 2005 to $755,905 in 2006. The Company's liabilities increased as the Company's cash flow has been tied to accounts receivables.

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

	2006	2005	2004
Revenues:			
Rooms	$ 1,309,830	$ 1,058,221	$ 1,039,922
Food & Beverage	889,721	757,224	763,651
Telephone	48,161	47,490	58,225
Others	25,259	22,184	33,577
	2,272,971	1,885,119	1,895,375
Cost of Sales & services:			
Rooms	349,872	267,850	305,963
Food & Beverage	986,993	723,898	752,175
Telephone	61,958	57,119	32,275
Others	3,511	738	1,607
	1,402,334	1,049,605	1,092,020
Department Gross Profit/ (Loss):			
Rooms	959,958	790,371	733,959
Food & Beverage	(97,272)	33,326	11,476
Telephone	(13,797)	(9,629)	25,950
Others	21,748	21,446	31,970
Total Gross Profit	870,637	835,514	803,355
Operating expenses	1,151,748	810,898	6,646,522
Other expenses (income), net	8,231	7,805	(520,052)
Change in net assets	$ (289,342)	$ 16,811	$ (5,323,115)

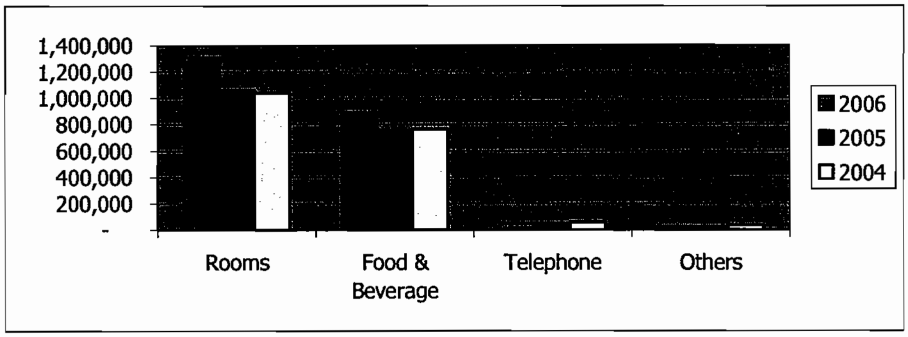
The Statements of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items that impact the change in net assets. Based on the above, the hotel's total revenue for 2006 represents a full year twelve-month period compared to 2005 which is only nine-month period. On a full year basis, total revenue for 2006 decreased by $240,521 or 10% from $2,513,492 in 2005 to $2,272,971 in 2006. The decline in the revenues was attributable to lower occupancy rates in 2006 compared to 2005 which resulted to lower room revenues and a decline in the food and beverage sales.

Management's Discussion and Analysis for the nine months ended September 30, 2005, is set forth in MRI's report on the audit of financial statements, which is dated January 27, 2006. That Discussion and Analysis explains the major factors impacting the 2005 financial statements and can be obtained from MRI's General Manager via the contact information on page 6.

MAJURO RESORT, INC.

Management's Discussion and Analysis
Year Ended September 30, 2006

The following graph shows the major components of revenue for financial periods 2006, 2005 and 2004. The revenue for 2006 and 2004 covers a twelve (12) month period while revenue for 2005 covers nine (9) month period.



As discussed in the previous paragraphs, on an average full year basis, operating revenues for 2006 showed a decline by $240,521 or 10% from $2,513,492 in 2005 to $2,272,971 in 2006. However, average full year room revenues for 2006 showed a decline of $101,131 or 7% from $1,410,961 in 2005 to $1,309,830 in 2006. On the other hand, food and beverage revenues for 2006 is at $889,721 which showed also a decrease from last year by $119,911 on an average full-year basis but showed an improvement by $126,070 or 16% over 2004 performance. Telephone revenues and revenues from other operating department showed also decline compared to last year.

Occupancy rate in 2006 is 34% as compared to 38% in 2005 and 30% in 2004.

<u>Statement of Hotel Occupancy Performance</u>

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2006, 2005, 2004, 2003 and 2002.

Financial information for all the years represents a twelve-month period except for 2005 which covers only nine-month period.

Occupancy Performance	2006	2005	2004	2003	2002
% of total occupancy	33.61%	38.01%	30.12%	40.49%	47.51%
Average rate	$ 73.43	$ 67.33	$ 67.14	$ 62.02	$ 57.01
% of paid occupancy	32.87%	37.58%	28.87%	35.61%	42.35%
Average rate	$ 75.08	$ 68.10	$ 70.04	$ 70.50	$ 63.96
Group rooms	0	225	883	585	0
% of total occupancy	0	0.50%	1.70%	1.14%	0.00%
Average rate	0	$ 91.70	$ 82.00	$ 76.08	$ -

The hotel paid occupancy ratio for the current year showed a decline from 2005. However, the average paid room rate has improved over the last 5 years.

Capital Assets

Net capital assets decreased by $108,794 mainly because of higher depreciation charge for this year. Depreciation charge for 2006 represents twelve (12) month period compared for 2005 which is applicable only for nine (9) months. During the year, management replaced air conditioning units in the hotel rooms and this brought the upsurge in the furniture & fixtures account.

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

	2006	2005	2004
Building and structure	$ 2,232,681	$ 2,232,681	$ 2,115,000
Furniture and fixtures	571,494	511,217	487,301
Office equipment	187,220	180,034	180,034
Other equipment	83,206	81,650	80,303
Motor vehicles	88,193	73,693	73,693
Property and equipment, at cost	3,162,794	3,079,275	2,936,331
Accumulated depreciation	(1,069,507)	(877,194)	(740,456)
Net book value	$ 2,093,287	$ 2,202,081	$ 2,195,875

Additional information on MRI's capital assets can be found in note 4 to the financial statements.

Economic Factors and Next Year's rates

The following factors may have a great impact on next year's operations:

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 Marshall Islands as a favorite dive destination.

2.) An increase in room occupancy due to anticipated increase in special flights from international carriers serving the Marshall Islands and Micronesia, such as Japan Airlines. JAL has so far provided one charter flight each to the Marshall Islands for the months of February & March 2007. JAL has expressed interest to increase its charter flights in the next couple of months through next year.

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

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

5.) Increased marketing effort to promote the hotel facilities to the local market through discounted room rates and other promotional activities to attract 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
September 30, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash	$ 33,008	$ 103,091
Receivables:		
Trade	136,589	113,167
Affiliates	153,320	144,617
Other	23,309	1,130
	313,218	258,914
Less allowance for doubtful accounts	(83,053)	(83,053)
Total receivables, net	230,165	175,861
Inventories	48,303	53,252
Prepaid expenses	53,914	47,056
Total current assets	365,390	379,260
Property, plant and equipment, net	2,093,287	2,202,081
	$ 2,458,677	$ 2,581,341

LIABILITIES AND STOCKHOLDER'S EQUITY	2006	2005
Current liabilities:		
Accounts payable	$ 57,970	$ 51,391
Payable to affiliates	463,650	389,433
Accrued expenses	234,285	135,094
Total current liabilities	755,905	575,918
Payable to affiliate	-	13,309
Total liabilities	755,905	589,227
Commitment and contingencies		
Net assets:		
Invested in capital assets	2,093,287	2,202,081
Unrestricted	(390,515)	(209,967)
Total net assets	1,702,772	1,992,114
	$ 2,458,677	$ 2,581,341

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2006 and Nine Months Ended September 30, 2005

	2006	2005
Revenues:		
Rooms	$ 1,309,830	$ 1,058,221
Food and beverage	889,721	757,224
Telephone	48,161	47,490
Other	25,259	22,184
Total revenues	2,272,971	1,885,119
Cost of sales:		
Food and beverage	986,993	723,898
Rooms	349,872	267,850
Telephone	61,958	57,119
Other	3,511	738
Total cost of sales	1,402,334	1,049,605
Gross profit	870,637	835,514
Operating expenses:		
Utility costs	411,964	317,223
General and administrative	266,928	179,850
Maintenance	233,596	125,310
Depreciation	192,313	136,729
Insurance	24,237	37,225
Sales and marketing	22,710	14,561
Total operating expenses	1,151,748	810,898
Operating (loss) income	(281,111)	24,616
Other expense, net	8,231	7,805
Change in net assets	(289,342)	16,811
Net assets at beginning of period	1,992,114	1,975,303
Net assets at end of period	$ 1,702,772	$ 1,992,114

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Year Ended September 30, 2006 and Nine Months Ended September 30, 2005

	2006	2005
Cash flows from operating activities:		
Cash received from customers	$ 2,218,667	$ 1,787,772
Cash payments to suppliers for goods and services	(1,502,294)	(1,110,877)
Cash payments to employees for services	(664,706)	(455,086)
Net cash provided by operating activities	51,667	221,809
Cash flows from noncapital financing activities:		
Payments on promissory note	(30,000)	(21,406)
Interest paid on promissory note	(8,231)	(7,805)
Net cash used for noncapital financing activities	(38,231)	(29,211)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(83,519)	(142,935)
Net change in cash	(70,083)	49,663
Cash at beginning of period	103,091	53,428
Cash at end of period	$ 33,008	$ 103,091
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (281,111)	$ 24,616
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	192,313	136,729
Bad debt expense	-	900
(Increase) decrease in assets:		
Receivables:		
Trade	(23,422)	20,788
Affiliates	(30,882)	(118,135)
Inventories	4,949	23,517
Prepaid expenses	(6,858)	(7,972)
Increase in liabilities:		
Accounts payable	6,579	6,753
Payable to affiliates	90,908	112,320
Accrued expenses	99,191	22,293
Net cash provided by operating activities	$ 51,667	$ 221,809

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: 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 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 2006, MRI 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- 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 accompanying 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, 2007. 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 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, 2008. Management does not believe the implementation of this statement will have a material effect on the financial statements of MRI.

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 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.

(2) Summary of Significant Accounting Policies, Continued

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.

Cash

Custodial risk is the risk that in the event of a bank failure, MRI'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. MRI does not have a deposit policy for custodial credit risk.

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 September 30, 2006 and 2005, the carrying amount of cash was $33,008 and $103,091, respectively, and the corresponding bank balances were $24,799 and $112,812, respectively. As of September 30, 2006 and 2005, bank balances in the amount of $21,688 and $100,000, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remainder being maintained in a non-FDIC insured financial institution. Accordingly, these deposits are exposed to custodial credit risk. 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.

Allowance for Doubtful Accounts

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 are stated at the lower of cost (average costing) or market (net realizable value).

Operating Supplies

China, glass, linen, silverware and uniforms are charged to expense in the year of purchase.

(2) Summary of Significant Accounting Policies, Continued

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 year ended September 30, 2006 and the nine months ended September 30, 2005, MRI incurred advertising costs of $19,509 and $14,337, 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 September 30, 2006 and 2005, the accumulated vacation leave liability amounted to $33,196 and $23,618, 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 September 30, 2006 and 2005, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2005	Additions	Deletions	Balance at September 30, 2006
Building and structure	17 years	$ 2,232,681	$ -		2,232,681
Furniture and fixtures	3 years	511,217	60,277		571,494
Office equipment	3 years	180,034	7,186		187,220
Other equipment	3 years	81,650	1,556	-	83,206
Motor vehicles	3 years	73,693	14,500	-	88,193
		3,079,275	83,519	-	3,162,794
Less accumulated depreciation		(877,194)	(192,313)	-	(1,069,507)
		$ 2,202,081	$ (108,794)	$ -	$ 2,093,287

(4) Property, Plant and Equipment, Continued

	Estimated Useful Lives	Balance at January 1, 2005	Additions	Deletions	Balance at September 30, 2005
Building and structure	17 years	$ 2,115,000	$ 117,681	$ -	$ 2,232,681
Furniture and fixtures	3 years	487,301	23,916	-	511,217
Office equipment	3 years	180,034	-	-	180,034
Other equipment	3 years	80,303	1,347	-	81,650
Motor vehicles	3 years	73,693	-	-	73,693
		2,936,331	142,944	-	3,079,275
Less accumulated depreciation		(740,456)	(136,738)	-	(877,194)
		$ 2,195,875	$ 6,206	$ -	$ 2,202,081

(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.

A summary of related party transactions for the year ended September 30, 2006 and for the nine months ended September 30, 2005 and the related receivable and payable balances as of September 30, 2006 and 2005, are as follows:

	September 30, 2006			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 292,865	$ -	$ 113,666	$ -
Air Marshall Islands, Inc.	7,939	-	3,102	-
Marshalls Energy Company, Inc.	4,409	324,849	396	89,288
Marshall Islands National Telecommunications Authority	-	83,412	-	15,582
Marshall Islands Social Security Administration	1,241	47,043	-	65,121
Majuro Water and Sewer Company, Inc.	-	28,421	-	9,120
PII	20,007	20,016	26,885	170,360
Triple J/Payless Supermarket	6,806	459,568	325	81,629
Other	52,443	2,030	8,946	32,550
	$ 385,710	$ 965,339	$ 153,320	$ 463,650

(5) Related Party Transactions, Continued

	September 30, 2005			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 225,563	$ -	$ 116,130	$ 4,094
Air Marshall Islands, Inc.	2,307	-	248	-
Marshalls Energy Company, Inc.	26,403	196,336	548	73,573
Marshall Islands National Telecommunications Authority	3,640	71,948	180	23,219
Marshall Islands Social Security Administration	-	55,345	-	82,793
Majuro Water and Sewer Company, Inc.	2,004	27,816	-	7,539
PII	13,150	105,338	14,260	162,291
Triple J/Payless Supermarket	4,023	311,782	-	46,826
Pacific Wheels	-	-	-	2,138
Other	60,097	-	13,251	268
	$ 337,187	$ 768,565	$ 144,617	$ 402,742

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 September 30, 2006 and 2005, the balance of the note amounted to $15,213 and $45,213, respectively.

Changes in long-term liabilities for the year ended September 30, 2006 and 2005, are as follows:

	Balance September 30, 2005	Additions	Deductions	Balance September 30, 2006	Due within one year
MISSA promissory note	$ 45,213	$ -	$ (30,000)	$ 15,213	$ 15,213

	Balance September 30, 2004	Additions	Deductions	Balance September 30, 2005	Due within one year
MISSA promissory note	$ 66,619	$ -	$ (21,406)	$ 45,213	$ 31,904

As of September 30, 2006 and 2005, MRI maintained demand deposit accounts with a related financial institution with a bank balance of $3,111 and $3,247, respectively.

(5) Related Party Transactions, Continued

On February 20, 2004, Outrigger Pacific, Inc., 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 which amounts to $545,112. The amount was recorded in other income/expense of the 2004 financial statements. Forgiveness of these taxes is contingent upon the negotiation of a formal Joint Venture Agreement with the third party. As of October 1, 2007 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.

(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 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 September 30, 2006 and 2005.

Contingencies

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.

As of October 1, 2007, there is no management agreement between PII and RepMar. Management has estimated that a total of $189,360 is due to PII for management fees based on the management contract with Outrigger Hotel. RepMar is currently negotiating a final agreement with PII and therefore, MRI has not recorded the management fees.