

MAJURO RESORT, INC.

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2007

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Majuro Resort, Inc.:

We have audited the financial statements of Majuro Resort, Inc. (MRI) as of and for the year ended September 30, 2007, and have issued our report thereon dated April 15, 2008. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MRI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MRI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MRI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses (pages 3 and 4) as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above in item 2007-1 to be a material weakness.

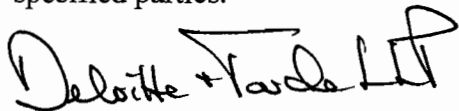
Compliance and Other Matters

As part of obtaining reasonable assurance about whether MRI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2007-2.

We noted certain matters that we reported to management of MRI in a separate letter dated April 15, 2008.

MRI's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit MRI's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Tardes LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

April 15, 2008

MAJURO RESORT, INC.

Schedule of Findings and Responses Year Ended September 30, 2007

Management Contracts

Finding 2007-1

Criteria: On February 19, 2004, RepMar entered into a joint venture Memorandum of Agreement (MOA) with Pacific International Inc. (PII) whereby RepMar granted and conveyed controlling interest of MRI to PII.

Condition: The MOA has not been executed by RepMar and therefore, 100% of MRI's records are reported as a component unit by RepMar. Additionally, the MOA does not indicate if any management fees will be collected by PII and thus, none has been recorded since February 19, 2004.

Cause: The cause of the above condition is that final discussions between RepMar and PII have yet to be concluded.

Effect: The status of repairs needed for the building, estimated management expenses of \$266,965, and the structure of MRI is uncertain due to the status of the management agreement.

Prior Year Status: Lack of an executed management agreement was reported as a finding in the audits of MRI for fiscal years 2005 and 2006.

Recommendation: We recommend that MRI, in conjunction with RepMar, prepare and execute a management agreement.

Auditee Response:

Discussions have been held to finalize the agreement between PII and RepMar for the past years already. After a series of meetings chaired by the Chief Secretary in 2005, the final agreement has been submitted to Cabinet for action. We have not received any development yet after that. However, immediately after the appointment of the new members of the Cabinet, a consultation was held and varying business issues of the Hotel were presented. This consultation made with the Cabinet is the start towards a more detailed and in-depth discussion with PII as to the proposed co-ownership of the Hotel.

Pacific International, Inc. is carrying its responsibilities in accordance with the provisions of the February 19, 2004 MOA and the Management Contract assumed from Outrigger Hotel. Management has estimated that a total of \$266,965 is due to PII for management fees calculated in accordance with previously negotiated management contract between RepMar and the Outrigger Hotel Group. PII assumed the prior management contract between RepMar and the Outrigger Hotel. RepMar is currently negotiating a final agreement with PII and therefore, MRI has not recorded the management fees in their financial statements.

MAJURO RESORT, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Sales and Local Government Tax

Finding 2007-2

Criteria: Majuro Atoll Local Government (Malgov) has local ordinances that require the payment of 4% sales tax and three dollar per night room tax by consumers and that these taxes be remitted to Malgov on a monthly basis.

Condition: MRI did not file the sales tax and local government tax returns for fiscal years 2006 and 2007. However, an accrual was set up as of September 30, 2007 and 2006 for sales tax payable in the amount of \$103,663 and \$76,542 respectively; and Local Government tax payable in the amount of \$103,730 and \$64,151 respectively.

Cause: MRI did not pay these taxes as management believes that they have already paid for the sales tax when MRI purchased items from the vendors. Paying sales tax would only result in double taxation. Local Government hotel room tax was not paid since by virtue of a signed agreement, MRI is owned by RepMar therefore no tax payment is necessary.

Effect: Non-compliance with local laws and regulations which may result to penalty and additional interest.

Prior Year Status: Non filing of sales and local government tax was reported as a finding in the audit of MRI for fiscal year 2006.

Recommendation: We recommend that the Company file the tax returns on a timely basis.

Auditee Response:

Management did not file the tax returns nor pay the sales tax because we believe that when food and supplies are taxed only on the first sale. Payment of the sales tax to the Local Government will result in double taxation as tax has been paid on the goods and supplies upon purchase already. Further, the Hotel is making use of locally produced food items and so, payment of sales tax is not necessary.

On the other hand, Management has now suspended the imposition of local tax on hotel rooms pending the final negotiation of the MOA between RepMar and PII.

MAJURO RESORT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2007

The status of unresolved prior year findings are disclosed within the Schedule of Findings section (pages 3 and 4) of this report.