MAJURO RESORT, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of 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, 2007 and 2006, 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 7 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 April 15, 2008, 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

April 15, 2008

MAJURO RESORT, INC.
Management Discussion and Analysis
Year Ended September 30, 2007

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, 2007. This discussion and analysis should be read in conjunction with the financial statements which follow this section.

Financial Highlights

Total assets decreased by $21,842 or 1% from $2,458,677 in 2006 to $2,436,835 in 2007. The slight decrease in the total assets is the effect of the increase in receivables of $76,934, increase in inventories, specifically for linens/towels of $20,050, which was offset with a decrease in capital assets of $103,629, which is mainly due to depreciation.

Gross operating revenues for 2007 were $2,503,051 and represent an increase of $230,080 or 10% compared to 2006. In December 2006, MRI had a fire in its kitchen area and the amount of $51,820, net of related expenses, was shown as part of other nonoperating revenues in the foregoing Profit and Loss Statement. The increase in 2007 operating revenues can be largely attributed to an increase in tourist arrivals in 2007 from three (3) Japan Airlines (JAL) charter flights in February, April and June. However, compared to 2005 operating revenues on a full year basis, 2007 showed a decrease of $10,441 or 1% from 2005 average total operating revenues. The JAL flights during the year also contributed to increased revenue performance in the Food and Beverage Department.

Total departmental operating profit for the full twelve-month period was $1,070,584 compared to 2006 which was $870,637 or an increase of $199,947 or 23%. This, however, represents a decline over 2005 departmental profit by $43,435 or 4%. As a percentage of total revenues, overall departmental operating profit for 2007 was at 43% which is 5% higher than 2006 and lower by 1% compared to 2005.

Operating expenses for 2007 amounted to $1,310,577 representing 52% of operating revenues. As a percentage of total revenues, this represents an increase of 1% compared to 2006 and a 9% increase over 2005. The increase in operating expenses during the year was due to an increase in utilities costs and expenses related to building maintenance.

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 MRI's Statements of Net Assets is presented below:

	2007	2006	2005*
Current and Other assets	$ 447,177	$ 365,390	$ 379,260
Capital Assets	1,989,658	2,093,287	2,202,081
Total Assets	$ 2,436,835	$ 2,458,677	$ 2,581,341
Current Liabilities	$ 928,580	$ 755,905	$ 575,918
Non-current Liabilities	-	-	13,309
Total Liabilities	928,580	755,905	589,227
Net Assets:			
Invested in Capital Assets	1,989,658	2,093,287	2,202,081
Unrestricted	(481,403)	(390,515)	(209,967)
	1,508,255	1,702,772	1,992,114
Total Net Assets	$ 2,436,835	$ 2,458,677	$ 2,581,341

* Nine months only

Total assets decreased by $21,842 or 1% from $2,458,677 in 2006 to $2,436,835 in 2007. Accounts receivable and inventories increased by $76,934 and $20,050, respectively compared to 2006. Receivables mainly comprise receivables from government and government-related agencies which the Hotel experienced a slow turnover over the past year. Total inventories increased this year due to bulk purchases of kitchen equipment and utensils, and room amenities and supplies in preparation for the influx of big groups in the upcoming months. However, the increase in receivables and inventories was offset by a decrease in net capital assets due to depreciation.

On the other hand, total liabilities increased by $172,675 or 23% from $755,905 in 2006 to $928,580 in 2007. MRI's liabilities increased as MRI's cash flow has been tied to accounts receivables, particularly with the government and government-related agencies.

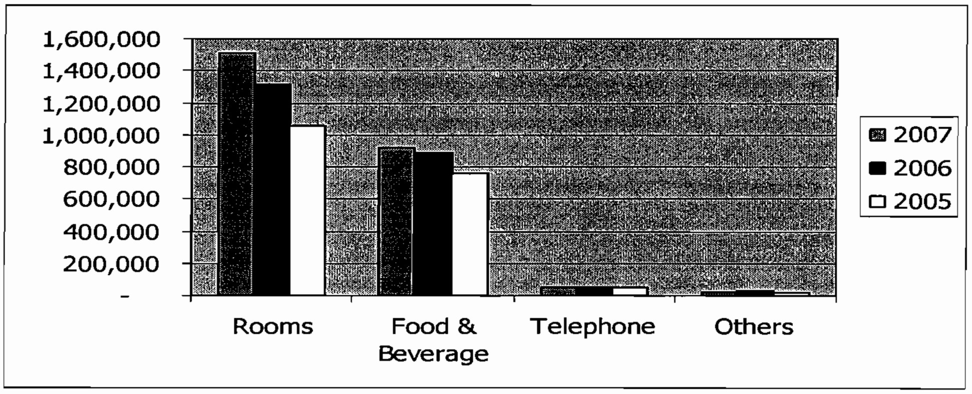
A summary of MRI's Statements of Revenue, Expenses and Changes in Net Assets is presented below:

	2007	2006	2005*
Revenues:			
Rooms	$ 1,512,820	$ 1,309,830	$ 1,058,221
Food & Beverage	920,516	889,721	757,224
Telephone	46,224	48,161	47,490
Others	23,491	25,259	22,184
	2,503,051	2,272,971	1,885,119
Cost of Sales & Services:			
Rooms	394,231	349,872	267,850
Food & Beverage	978,251	986,993	723,898
Telephone	59,234	61,958	57,119
Others	751	3,511	738
	1,432,467	1,402,334	1,049,605
Department Gross Profit:			
Rooms	1,118,589	959,958	790,371
Food & Beverage	(57,735)	(97,272)	33,326
Telephone	(13,010)	13,797	(9,629)
Others	22,740	21,748	21,446
Total Gross Profit	1,070,584	870,637	835,514
Operating Expenses	1,310,577	1,151,748	810,898
Nonoperating Revenue (Expense)	45,476	(8,231)	(7,805)
Change in Net Assets	$ (194,517)	$ (289,342)	$ 16,811

* Nine months only

The Statements of Revenues, Expenses and Changes in Net Assets identify various revenue and expense items that impact the change in net assets. Operating revenues for 2007 showed an improvement of $230,080 or 10% from $2,272,971 in 2006 to $2,503,051 in 2007. Room revenues for 2007 increased by $202,990 or 15% from 2006 and increased by $101,859 or 7% from 2005 on an average full year basis. The three flights during the year contributed to the increase in room revenue. Food and beverage, however, showed an increase of $30,795 or 3% over 2006 but showed a decline of $89,116 or 9% over 2005 taken on an average full year basis. As mentioned on the previous page, the Hotel had a fire in its kitchen area in December 2006 and received an insurance claim of $58,584. The gain of $51,820, net of fire-related expenses, from the insurance claim was shown as part of nonoperating revenues in the above Profit and Loss Statement.

The following graph shows the major components of revenue for financial periods 2007, 2006 and 2005. The revenue for 2007 and 2006 covers a twelve (12) month period while revenue for 2005 covers nine (9) month period.



Statement of Hotel Occupancy Performance

The following table shows a comparison of financial and statistical information affecting the room revenue performance for the years 2007, 2006, 2005, 2004 and 2003.

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

Occupancy Performance	2007	2006	2005	2004	2003
% of total occupancy	47.61%	33.61%	38.01%	30.12%	40.49%
Average rate	$ 59.76	$ 73.43	$ 67.33	$ 67.14	$ 62.02
% of paid occupancy	46.12%	32.87%	37.58%	28.87%	35.61%
Average rate	$ 61.70	$ 75.08	$ 68.10	$ 70.04	$ 70.50
Group rooms	1,644	-	225	883	585
% of total occupancy	3.09%	-	0.50%	1.70%	1.14%
Average rate	$ 87.92	-	$ 91.70	$ 82.00	$ 76.08

Paid occupancy rate in 2007 is 46% as compared to 33% in 2006 and 38% in 2005.

The hotel paid occupancy ratio for the current year showed an increase from 2006. However, the average paid room rate declined from 2006 due to more apartment rooms this year which caused the room rate to be diluted.

Capital Assets

Net capital assets decreased by $103,625 mainly due to depreciation charge for the year. MRI replaced a number of the room air conditioning units from window-type to split-type units which brought the upsurge in the furniture and fixtures account. MRI also purchased certain kitchen equipment when the fire in December 2006 damaged the existing ones.

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

	2007	2006	2005
Building and structure	$ 2,234,912	$ 2,232,681	$ 2,232,681
Furniture and fixture	654,020	571,494	511,217
Office equipment	191,678	187,220	180,034
Other equipment	94,443	83,206	81,650
Motor vehicles	88,206	88,193	73,693
At cost	3,263,259	3,162,794	3,079,275
Accumulated depreciation	(1,273,601)	(1,069,507)	(877,194)
Net Book Value	$ 1,989,658	$ 2,093,287	$ 2,202,081

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

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in MRI's report on the audit of financial statements, which is dated October 1, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be obtained from MRI's General Manager via the contact information on page 7.

Economic Factors and Next Year's Performance

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

1.) The Marshall Islands Visitors Authority (MIVA) is aggressively promoting the destination through outside sales agents in Japan and Europe. However, management is not optimistic about the amount of increase for 2008. MRI has had some bumps with the direct Japan Airlines (JAL) flights with three flights split between November and December 2007. The first quarter of 2008 was otherwise very slow due to the RMI elections. Over the years, the first quarter has been usually slow due to various Ministries not booking conferences due to uncertainties of election. This trend continues until the second quarter. Further to that, JAL cancelled the first flights of the second quarter and it is not sure if we will see third and fourth quarter business. Generally, we are not encouraged by what we see for the first and second quarters.

2.) A proposal has been submitted by MIVA and discussion has been held with RepMar for the marketing and promotion of the newly-built International Conference Center (ICC) which has the capacity to host a large number of conferences. With this, MRI should be seeing a growth in its banquet and catering business. However, the Government has not acted upon or is not playing an aggressive role in this area. In addition, because of the uncertainties of the national election, there were not many conferences booked since last quarter of 2007 and is expected to continue into the second quarter of 2008 as most conferences have already been booked. As this has been the trend over the past years, this has had made an impact, to a certain extent, on food and beverage operations.

3.) Increased marketing effort to promote the hotel facilities to the local market through discounted room rates and other promotional activities to attract local market. MRI will continue to market the Hotel to the local market through its Room and Ramen promotion. However, we see a trend for lower-rated versus added value. We may be better off to get a higher rated business and not offer the Room and Ramen or give an option of lower rate versus added-value. Food and beverage usage continues to be a problem. Lack of disposable cash has been evident since the third quarter of 2007.

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, 2007 and 2006

ASSETS	2007	2006
Current assets:		
Cash	$ 48,104	$ 33,008
Receivables:		
Trade	164,543	136,589
Affiliates	187,040	153,320
Other	38,569	23,309
	390,152	313,218
Less allowance for doubtful accounts	(88,354)	(83,053)
Total receivables, net	301,798	230,165
Inventories	68,353	48,303
Prepaid expenses	28,922	53,914
Total current assets	447,177	365,390
Property, plant and equipment, net	1,989,658	2,093,287
	$ 2,436,835	$ 2,458,677
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	$ 84,614	$ 57,970
Payable to affiliates	542,874	463,650
Accrued expenses	301,092	234,285
Total current liabilities	928,580	755,905
Commitment and contingencies		
Net assets:		
Invested in capital assets	1,989,658	2,093,287
Unrestricted	(481,403)	(390,515)
Total net assets	1,508,255	1,702,772
	$ 2,436,835	$ 2,458,677

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Revenues:		
Rooms	$ 1,512,820	$ 1,309,830
Food and beverage	920,516	889,721
Telephone	46,224	48,161
Other	23,491	25,259
Total revenues	2,503,051	2,272,971
Cost of sales:		
Rooms	394,231	349,872
Food and beverage	978,251	986,993
Telephone	59,234	61,958
Other	751	3,511
Total cost of sales	1,432,467	1,402,334
Gross profit	1,070,584	870,637
Operating expenses:		
Utility costs	487,083	411,964
General and administrative	311,952	266,928
Maintenance	261,833	233,596
Depreciation	204,094	192,313
Insurance	20,729	24,237
Sales and marketing	24,886	22,710
Total operating expenses	1,310,577	1,151,748
Operating loss	(239,993)	(281,111)
Nonoperating revenues (expenses):		
Fire insurance recovery	51,820	-
Interest expense	(6,344)	(8,231)
Total nonoperating revenues (expenses), net	45,476	(8,231)
Change in net assets	(194,517)	(289,342)
Net assets at beginning of year	1,702,772	1,992,114
Net assets at end of year	$ 1,508,255	$ 1,702,772

See accompanying notes to financial statements.

MAJURO RESORT, INC.

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from customers	$ 2,426,117	$ 2,218,667
Cash payments to suppliers for goods and services	(1,645,635)	(1,502,294)
Cash payments to employees for services	(695,184)	(664,706)
Net cash provided by operating activities	85,298	51,667
Cash flows from noncapital financing activities:		
Payments on promissory note	(15,213)	(30,000)
Interest paid on promissory note	(6,344)	(8,231)
Net cash used for noncapital financing activities	(21,557)	(38,231)
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(100,465)	(83,519)
Cash received from fire insurance	51,820	-
Net cash used for capital and related financing activities	(48,645)	(83,519)
Net change in cash	15,096	(70,083)
Cash at beginning of year	33,008	103,091
Cash at end of year	$ 48,104	$ 33,008
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (239,993)	$ (281,111)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	204,094	192,313
Bad debt expense	5,301	-
(Increase) decrease in assets:		
Receivables:		
Trade	(43,214)	(23,422)
Affiliates	(33,720)	(30,882)
Inventories	(20,050)	4,949
Prepaid expenses	24,992	(6,858)
Increase in liabilities:		
Accounts payable	26,644	6,579
Payable to affiliates	94,437	90,908
Accrued expenses	66,807	99,191
Net cash provided by operating activities	$ 85,298	$ 51,667

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 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

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MRI.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of 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.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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 May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27.* GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of MRI.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. 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, 2007 and 2006, the carrying amount of cash was $48,104 and $33,008, respectively, and the corresponding bank balances were $58,022 and $24,799, respectively. As of September 30, 2007 and 2006, bank balances in the amount of $54,911 and $21,688, 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 years ended September 30, 2007 and 2006, MRI incurred advertising costs of $20,349 and $19,509, 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, 2007 and 2006, the accumulated vacation leave liability amounted to $43,962 and $33,196, respectively, and is included within the statement 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, 2007 and 2006, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2006	Additions	Deletions	Balance at September 30, 2007
Building and structure	17 years	$ 2,232,681	$ 2,231	$ -	$ 2,234,912
Furniture and fixtures	3 years	571,494	82,526	-	654,020
Office equipment	3 years	187,220	4,458	-	191,678
Other equipment	3 years	88,193	6,250	-	94,443
Motor vehicles	3 years	83,206	5,000	-	88,206
		3,162,794	100,465	-	3,263,259
Less accumulated depreciation		(1,069,507)	(204,094)	-	(1,273,601)
		$ 2,093,287	$ (103,629)	$ -	$ 1,989,658

(4) Property, Plant and Equipment, Continued

	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	73,693	14,500	-	88,193
Motor vehicles	3 years	81,650	1,556	-	83,206
		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

(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 balances and transactions as of September 30, 2007 and 2006 and for the years then ended are as follows:

	September 30, 2007			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 303,427	$ 3,880	$ 145,701	$ -
Air Marshall Islands, Inc.	16,786	-	4,941	-
Marshalls Energy Company, Inc.	18,102	391,784	160	143,350
Marshall Islands National Telecommunications Authority	-	114,332	-	22,425
Marshall Islands Social Security Administration	689	74,103	-	91,859
Majuro Water and Sewer Company, Inc.	-	41,606	-	12,477
PII	21,397	10,263	13,388	156,113
Triple J/Payless Supermarket	22,579	451,844	3,621	82,009
Other	58,791	42,966	19,229	34,641
	$ 441,771	$ 1,130,778	$ 187,040	$ 542,874

(5) Related Party Transactions, Continued

	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

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. The note was paid in full during the year ended September 30, 2007.

MRI maintained a demand deposit account with a related financial institution with a bank balance of $3,111 for the years ended September 30, 2007 and 2006.

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 included the forgiveness of certain taxes payable by MRI which amounted to $545,112. Forgiveness of these taxes is contingent upon the negotiation of a formal Joint Venture Agreement with the third party. As of April 15, 2008 no formal Joint Venture Agreement has been executed; however, management reflected such taxes as a subsidy from RepMar in accordance with the Memorandum of Agreement in the 2004 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, 2007 and 2006.

(6) Commitment and Contingencies, Continued

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 April 15, 2008, there is no management agreement between PII and RepMar. 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.