MAJURO RESORT, INC.

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

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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, 2008, and have issued our report thereon dated May 12, 2009. 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 2008-1 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 2008-1 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 2008-2.

We noted certain matters that we reported to management of MRI in a separate letter dated May 12, 2009.

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.

Deloitte + Touche LLP

May 12, 2009

MAJURO RESORT, INC.

Schedule of Findings and Responses
Year Ended September 30, 2008

Management Contracts

Finding 2008-1

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 $337,821, 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, 2006 and 2007.

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

Auditee Response: Discussions have been held for the past years to finalize the agreement between PII and RepMar. 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 including the proposed management agreement with RepMar. 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 $337,821 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, MIR has not recorded any accrual for management fees in the financial statements.

Moreover, RepMar has entertained a sale of MRI in March 2009. No determination has occurred as of the date of the writing of this response.

Sales and Local Government Tax

Finding 2008-2

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 sales tax and local government tax returns for fiscal years 2006, 2007 and 2008. However, an accrual was recorded as of September 30, 2008 and 2007 for sales tax in the amount of $129,612 and $103,663, respectively and for Local Government taxes in the amount of $136,451 and $103,730, respectively.

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

Effect: Noncompliance with local laws and regulations could result from this condition which may result in penalties and interest.

Prior Year Status: Non-filing of sales and local government taxes was reported as a finding in the audits of MRI for fiscal years 2006 and 2007.

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

Auditee Response: MIR neither files tax returns nor pays the sales tax as management believes that food and supplies are subject to tax only on the first sale. Payment of sales tax to Local Government would result in double taxation as taxes have already been paid by MIR upon purchased of the products from the vendors. Further, the Hotel is making use of locally produced food items. Thus, payment of sales tax is not necessary.

On the other hand, Management has 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, 2008

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