MARSHALLS ENERGY COMPANY, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

Deloitte.

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, GU 96913-3911
USA

Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshalls Energy Company, Inc.:

We have audited the accompanying statements of net assets of the Marshalls Energy Company, Inc. (MEC), a component unit of the Republic of the Marshall Islands, as of September 30, 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 MEC'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of MEC as of September 30, 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.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of MEC taken as a whole. The accompanying Schedule of Revenues, Expenses and Changes in Net Assets by Source for the year ended September 30, 2004 (page 17) is presented for purposes of additional analysis and is not a required part of the basic financial statements of MEC. This schedule is the responsibility of the management of MEC. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2005, on our consideration of MEC's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

January 11, 2005

Marshalls Energy Company (MEC) herewith presents a discussion and analysis of the company's financial performance during the fiscal year ended on September 30, 2004. It is to be read in conjunction with the financial statements following this section.

FINANCIAL HIGHLIGHTS

MEC's net assets decreased by $1,841,431 to $3,958,657 in 2004 from $5,800,088 in 2003 compared to an increase of $596,588 in 2003. This decrease occurred despite an increase in total revenue of $1,638,475 compared to 2003. Revenue earned from power generation decreased by $253,241 from $8,872,780 in 2003 to $8,619,539 in 2004. Other Operating Revenue, which was mainly from external fuel sales, increased by $1,891,716, or 20% from $9,614,251 in 2003 to $11,505,967 in 2004. Total Expenses for power generation increased by $695,767, or 6%, from $11,152,722 in 2003 to $11,848,489 in 2004. This is despite an increase in the landed cost of fuel in excess of 41% for the year. In summary, total revenue increased by 9% whereas total expenses increased by 13%, resulting in the decrease in net assets.

FINANCIAL ANALYSIS OF MEC

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provides an indication of MEC's financial condition. MEC's net assets reflects the difference between total assets and total liabilities. An increase in net assets over time normally indicates an improvement in financial condition.

The Summary Statement of Net Assets for MEC is presented below:

	2004	2003
Current and Other Assets	$ 5,379,672	$ 5,300,473
Capital Assets	12,276,709	13,116,575
Total Assets	17,656,381	18,417,048
Current Liabilities	4,405,685	2,835,940
Non-current Liabilities	9,292,039	9,781,020
Total Liabilities	13,697,724	12,616,960
Net Assets:		
Invested in Capital Assets	2,495,689	2,876,974
Unrestricted	1,462,968	2,923,114
Total Net Assets	$ 3,958,657	$ 5,800,088

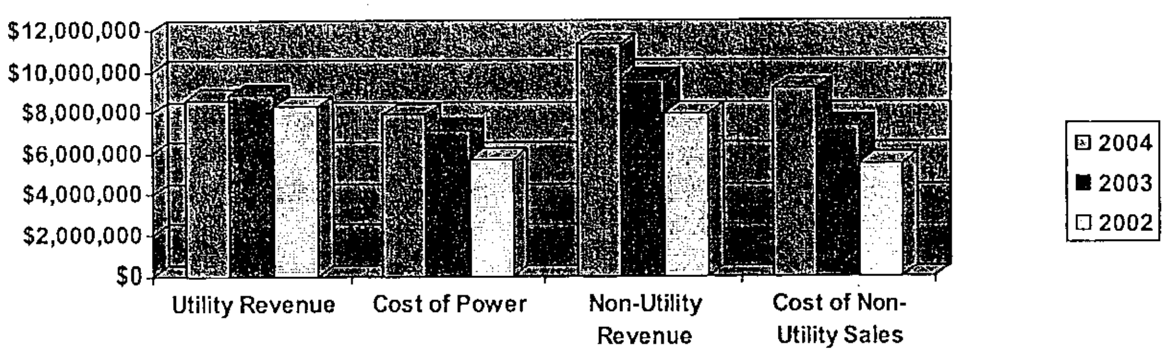
Total assets decreased by $760,667 or 4% from $18,417,048 in 2003 to $17,656,381 in 2004. The majority of the decrease is shown as an increase in Accumulated Depreciation of $1,090,312 from $6,162,023 in 2003 to $7,252,335 in 2004 offset by an increase in total Accounts Receivable of $374,190. Total Liabilities increased by $1,080,764 or 9% from $12,616,960 in 2003 to $13,697,724 in 2004. The majority of the increase is found in Accounts Payable which increased from $2,020,733 in 2003 to $3,412,436. This was mainly due to the purchases of fuel and lube oils from Mobil for August and September being unpaid at 30th September 2004. The accounts have subsequently been paid.

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

	2004	2003
Revenues:		
Utility Revenue	$ 8,619,539	$ 8,872,780
Non-Utility Revenue	11,505,967	9,614,251
Total Operating Revenue	20,125,506	18,487,031
Expenses:		
Utility Expenses	11,848,489	11,152,722
Non-Utility Expenses	9,655,826	7,935,045
Total Operating Expenses	21,504,315	19,087,767
Capital Contributions/Compact Funding	173,994	1,866,667
Less Interest Expense	636,616	669,343
Change in Net Assets	$ (1,841,431)	$ 596,588

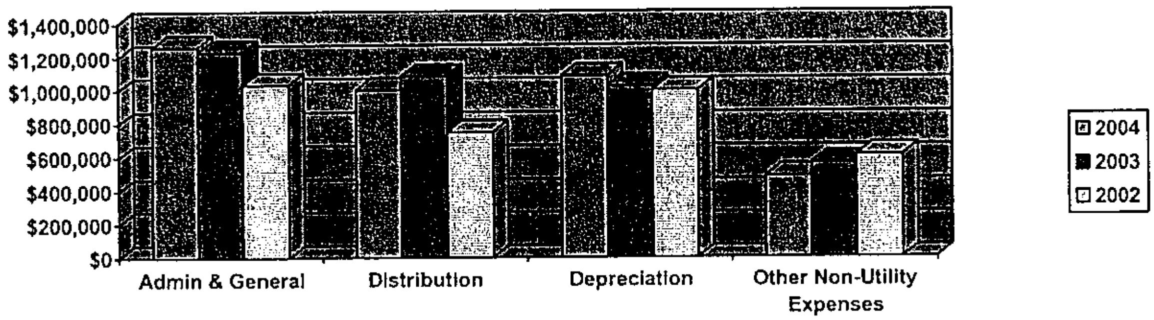
The Statement of Revenue, Expenses and Changes in Net Assets identifies the various revenue and expense items that contributed to the change in net assets. As indicated above, MEC's total revenues increased by $1,638,475 or 9% from $18,487,031 in 2003 to $20,125,506 in 2004. Electricity billings experienced a minor decrease of $253,241 or 3% from $8,872,780 in 2003 to $8,619,539 in 2004. Non-Utility revenue, which is basically fuel sales, increased by $1,891,716, or 20%, to $11,505,967 in 2004. In 2003, Compact funding in the amount of $1,866,667 was received whereas none was received in 2004. A capital contribution of $173,994 was received from RepMar for the construction of the Namdrik power plant in 2004.

The graphic below shows the major components of revenue for 2004 compared with 2003 and 2002:



Total expenses increased by $2,416,548 or 13% from $19,087,767 in 2003 to $21,504,315 in 2004. The major contributing factor was the increase in the landed cost of fuel. The remaining expenses were relatively stable showing minor increases and decreases for the year. This reflects management's commitment to maintain tight and effective control over both expenses and cash flow.

The following graphic shows the major components of operating expenses for 2004 compared with 2003 and 2002:



CAPITAL ASSETS

Total Capital Assets before depreciation increased by $195,688 through the acquisition of miscellaneous plant and equipment amounting to $77,185, motor vehicles of $83,887 and building additions at the Rongrong power plant of $70,048 and the disposal of motor vehicles of $35,432. The net Provision for Depreciation increased by $1,090,312 in 2004. This, together with the abovementioned acquisitions and disposals, and construction in progress of $54,758, gives a decrease in Net Capital Assets of $839,866.

ECONOMIC FACTORS

MEC will continue to monitor operating expenses and maintain tight fiscal constraints and control over utility receivables in order to improve cash collections and the net asset position. MEC, as a viable ongoing concern, will continue to be dependent on the financial support of RepMar in the form of:

a) compensation by RepMar for the cost of actual services provided,
b) the collection of long outstanding utility receivables, and
c) continuing improvements in operations.

Even though there was a moderate in increase in electricity tariffs effective 1st January 2005, the above measures are essential to enable MEC to maintain the relatively low rates for electricity that the Marshall Islands enjoy.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MEC's customers and other interested parties with an overview of the company's 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 Marshalls Energy Company, Inc. General Manager at P.O. Box 1439, Majuro, Marshall Islands, MH96960.

MARSHALLS ENERGY COMPANY, INC.

Statements of Net Assets
September 30, 2004 and 2003

ASSETS	2004	2003
Utility plant:		
Electric plant in service	$ 19,292,424	$ 19,104,392
Construction work in progress	54,758	-
Total utility plant	19,347,182	19,104,392
Less accumulated depreciation and amortization	(7,142,048)	(6,057,348)
Net utility plant	12,205,134	13,047,044
Other assets:		
Nonutility property, net	71,575	69,531
Current assets:		
Cash and cash equivalents	709,863	713,310
Accounts receivable:		
Electricity	2,794,094	3,075,538
Affiliates	1,472,448	1,424,890
Other	966,237	358,161
Total accounts receivable	5,232,779	4,858,589
Less allowance for uncollectible accounts	(2,292,530)	(2,136,475)
Net accounts receivable	2,940,249	2,722,114
Materials and supplies	1,707,048	1,834,668
Prepayments	22,512	30,381
Total current assets	5,379,672	5,300,473
Total assets	$ 17,656,381	$ 18,417,048

See accompanying notes to financial statements.

MARSHALLS ENERGY COMPANY, INC.

Statements of Net Assets, Continued
September 30, 2004 and 2003

LIABILITIES AND NET ASSETS	2004	2003
Net assets:		
Investment in capital assets, net of related debt	$ 2,495,689	$ 2,876,974
Unrestricted	1,462,968	2,923,114
Total net assets	3,958,657	5,800,088
Commitment and contingencies		
Long-term debt:		
RUS mortgage notes less current maturities	9,292,039	9,781,020
Current liabilities:		
Current maturities of long-term debt	488,981	458,581
Accounts payable	3,412,436	2,020,733
Payable to affiliates	58,745	90,348
Accrued taxes	60,016	175,368
Other current and accrued liabilities	385,507	90,910
Total current liabilities	4,405,685	2,835,940
Total net assets and liabilities	$ 17,656,381	$ 18,417,048

See accompanying notes to financial statements.

MARSHALLS ENERGY COMPANY, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2004 and 2003

	2004	2003
Utility operations:		
Operating revenues	$ 8,619,539	$ 8,872,780
Operating expenses:		
Cost of power	7,907,035	7,192,280
Administrative and general	1,259,536	1,231,437
Depreciation and amortization	1,084,201	1,020,586
Distribution operations	1,003,522	1,083,373
Consumer accounts	274,237	282,463
Taxes	226,151	201,044
Distribution maintenance	93,807	141,539
Total operating expenses	11,848,489	11,152,722
Operating loss from utility operations	(3,228,950)	(2,279,942)
Nonutility operations:		
Operating revenues:		
Fuel and gas sales	11,314,817	9,341,838
Other	191,150	272,413
Total operating revenues	11,505,967	9,614,251
Operating expenses:		
Cost of sales	9,168,423	7,384,111
Other	487,403	550,934
Total operating expenses	9,655,826	7,935,045
Operating income from nonutility operations	1,850,141	1,679,206
Operating loss	(1,378,809)	(600,736)
Nonoperating income (expense):		
Compact funding	-	1,866,667
Interest expense	(636,616)	(669,343)
Total nonoperating (expense) income, net	(636,616)	1,197,324
Capital contributions	173,994	-
Change in net assets	(1,841,431)	596,588
Net assets at beginning of year	5,800,088	5,203,500
Net assets at end of year	$ 3,958,657	$ 5,800,088

See accompanying notes to financial statements.

MARSHALLS ENERGY COMPANY, INC.

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from customers	$ 19,624,364	$ 17,634,303
Cash payments to suppliers for goods and services	(16,457,423)	(15,968,145)
Cash payments to employees for services	(1,968,407)	(1,875,632)
Net cash provided by (used for) operating activities	1,198,534	(209,474)
Cash flows from noncapital financing activities:		
Cash received from Compact Funds	-	1,866,667
Net cash provided by noncapital financing activities	-	1,866,667
Cash flows from capital and related financing activities:		
Capital contributions	173,994	-
Acquisition and construction of capital assets	(285,878)	(476,701)
Proceeds from disposal of capital assets	5,100	10,749
Principal paid on long-term debt	(458,581)	(425,933)
Interest paid on long-term debt	(636,616)	(669,343)
Net cash used for capital and related financing activities	(1,201,981)	(1,561,228)
Net (decrease) increase in cash and cash equivalents	(3,447)	95,965
Cash and cash equivalents at beginning of year	713,310	617,345
Cash and cash equivalents at end of year	$ 709,863	$ 713,310
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (1,378,809)	$ (600,736)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,125,029	1,069,713
Provision for uncollectible accounts receivable	274,237	282,463
(Increase) decrease in assets:		
Accounts receivable:		
Electricity	158,877	(284,413)
Affiliates	(47,558)	(371,124)
Other	(608,076)	(197,193)
Materials and supplies	127,620	(50,268)
Prepayments	7,869	9,279
Increase (decrease) in liabilities:		
Accounts payable	1,391,703	(100,017)
Payable to affiliates	(31,603)	(80,703)
Accrued taxes	(115,352)	92,832
Other current and accrued liabilities	294,597	20,693
Net cash provided by (used for) operating activities	$ 1,198,534	$ (209,474)

See accompanying notes to financial statements.

(1) Organization

The Marshalls Energy Company, Inc. (MEC) was granted a corporate charter by the Cabinet of the Republic of the Marshall Islands (RepMar) on February 2, 1984. MEC's principal lines of business are predominantly the generation and transmission of electricity and the buying and selling of petroleum products. Other lines of business include the rental of equipment and accommodation facilities. The principal markets for the generation and transmission of electricity are government agencies, businesses and residential customers located on the atolls of Majuro, Jaluit and Wotje. Petroleum products are sold primarily to foreign and domestic fishing vessels.

MEC's articles of incorporation have authorized the issuance of 100,000 shares of $1 par value common stock. RepMar owns 75,000 of these shares and MEC retains the remaining 25,000 shares in treasury. These amounts are included in unrestricted net assets in the accompanying statements of net assets.

An exclusive franchise to construct, maintain and operate a distribution system for furnishing electrical power within Majuro Atoll was granted to MEC by RepMar on March 8, 1983. Simultaneously, RepMar leased to MEC, for a nominal amount, a 12-megawatt power plant, a six million gallon capacity fuel storage facility, electrical transmission systems and related facilities on Majuro Atoll. The term of both the lease and the franchise is for a fifty year period commencing on December 1, 1996.

Pursuant to Cabinet Minute C.M. 162(93), RepMar leased to MEC, for a nominal amount, the right to operate and manage the power generating and distribution system in Jaluit Atoll effective November 1, 1993. The term of the lease is for a fifty year period commencing on December 1, 1996.

Through Cabinet action in October 2000, RepMar contracted MEC to develop, operate and maintain power generation systems on Wotje Atoll.

MEC'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 MEC 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. MEC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

MEC considers utility and nonutility revenues and costs that are directly related to utility and nonutility operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

(2) Summary of Significant Accounting Policies, Continued

GASB 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 modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, retained earnings are presented in the following net asset categories:

- Investment in capital assets; capital assets, net of accumulated depreciation and related debt, 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.

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.

Cash and Cash Equivalents

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days. As of September 30, 2004 and 2003, cash and cash equivalents are $709,863 and $713,310, respectively, and the corresponding bank balances are $1,812,811 and $1,663,397, respectively. Of bank balances as of September 30, 2004 and 2003, $1,810,219 and $1,660,806, respectively, are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004 and 2003, bank deposits in the amount of $100,000 are FDIC insured. MEC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible 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.

Materials and Supplies

Fuel and supplies are valued at the lower of cost (first-in, first-out) or market (net realizable value). Bulk fuel inventories held on consignment for power plant use and for resale are not reflected in the accompanying statements of net assets.

Plant and Nonutility Property

Plant and nonutility property with a cost that equals or exceeds $500 are capitalized. Such assets are stated at cost. Depreciation of plant and nonutility property and amortization of leasehold land and residences are calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Power plant engines	20 years
Plant and machinery	3 - 10 years
Vehicles	2 - 4 years
Leasehold improvements	20 years
Residences	20 years
Fences and seawalls	10 years
Leasehold land	20 years
Furniture and fixtures	3 - 5 years

Costs pertaining to distribution and line supplies are expensed during the year of installation as MEC considers the estimated useful lives of these supplies to be less than one year.

New Accounting Standards

For fiscal year 2005, MEC will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. MEC has not evaluated the financial statement impact of the implementations of GASB Statement Nos. 40 and 42.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements in order to conform with the 2004 presentation.

(3) Materials and Supplies

Materials and supplies at September 30, 2004 and 2003, consist of the following:

	2004	2003
Distribution and power plant supplies	$ 1,576,046	$ 1,683,194
Lubricants	73,777	113,011
Fuel	57,225	38,463
	$ 1,707,048	$ 1,834,668

(4) Capital Assets

Capital assets activity for the years ended September 30, 2004 and 2003, was as follows:

	2004			
	October 1, 2003	Additions	Retirements	September 30, 2004
Utility Plant:				
Power plant engines	$ 14,720,739	$ -	$ -	$ 14,720,739
Plant and machinery	1,612,907	61,587	-	1,674,494
Vehicles	785,266	83,887	(35,432)	833,721
Leasehold improvements	570,964	70,048	-	641,012
Residences	548,284	-	-	548,284
Fences and seawalls	371,702	-	-	371,702
Leasehold land	330,000	-	-	330,000
Furniture and fixtures	164,530	7,942	-	172,472
Nonutility Plant:				
LPG terminal	174,206	7,656	-	181,862
	19,278,598	231,120	(35,432)	19,474,286
Less accumulated depreciation	(6,162,023)	(1,125,029)	34,717	(7,252,335)
	13,116,575	(893,909)	(715)	12,221,951
Construction work-in-progress	-	54,758	-	54,758
	$ 13,116,575	$ (839,151)	$ (715)	$ 12,276,709

	2003			
	October 1, 2002	Additions	Retirements	September 30, 2003
Utility Plant:				
Power plant engines	$ 14,720,739	$ -	$ -	$ 14,720,739
Plant and machinery	1,416,381	196,526	-	1,612,907
Vehicles	781,058	71,573	(67,365)	785,266
Leasehold improvements	356,059	214,905	-	570,964
Residences	548,284	-	-	548,284
Fences and seawalls	371,702	-	-	371,702
Leasehold land	330,000	-	-	330,000
Furniture and fixtures	150,833	13,697	-	164,530
Nonutility Plant:				
LPG terminal	174,206	-	-	174,206
	18,849,262	496,701	(67,365)	19,278,598
Less accumulated depreciation	(5,148,927)	(1,069,713)	56,617	(6,162,023)
	13,700,335	(573,012)	(10,748)	13,116,575
Construction work-in-progress	20,000	25,866	(45,866)	-
	$ 13,720,335	$ (547,146)	$ (56,614)	$ 13,116,575

(5) Taxes Payable

Pursuant to the Income Tax Act of 1989, as amended by the Income Tax Amendment Act of 1991, sales of electricity by public utility companies are exempt from gross revenue tax. Accordingly, MEC is required to pay gross revenue tax on all revenue with the exception of electricity sales at the rate of 3%. As of September 30, 2004 and 2003, MEC is liable for gross revenue tax to RepMar amounting to $40,461 and $145,357, respectively.

Pursuant to the Import Duties Act of 1989, as amended by the Import Duties (Amendment) Act of 1996, no import duty shall be levied on residual fuel oils and diesel oil imported by MEC solely for the purpose of power generation. MEC is, however, required to pay import duty on diesel oil imported for resale subject to certain exemptions. As of September 30, 2004 and 2003, MEC is liable for import duty to RepMar amounting to $19,555 and $30,011, respectively.

(6) Notes Payable

	2004	2003
On November 18, 1997, MEC entered into a loan agreement with the Federal Financing Bank (FFB) in the amount of $12.5 million for the construction of a new power plant, with loan repayments guaranteed by the Rural Utilities Service (RUS). MEC is required to submit drawdown requests to RUS for approval of loan advances. Interest rates are calculated based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum. Principal and interest are payable in quarterly installments of $273,770 through January 2, 2018. The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is not in compliance with these ratio requirements as of September 30, 2004 and 2003.	$ 9,781,020	$ 10,239,601
Less current installments	488,981	458,581
Long-term debt	$ 9,292,039	$ 9,781,020

Long-term debt changed during the years ended September 30, 2004 and 2003:

2004			
Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004
$ 9,781,020	$ -	$ 488,981	$ 9,292,039

2003			
Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003
$ 10,234,294	$ -	$ 453,274	$ 9,781,020

(6) Notes Payable, Continued

Future repayment commitments are as follows:

Year ending September 30,	Principal	Interest	Total
2005	$ 488,981	$ 606,115	$ 1,095,096
2006	388,124	433,196	821,320
2007	550,388	559,987	1,110,375
2008	724,230	629,359	1,353,589
2009	628,047	467,046	1,095,093
2010-2014	3,802,085	1,673,393	5,475,478
2015-2018	3,199,165	365,203	3,564,368
	$ 9,781,020	$ 4,734,299	$ 14,515,319

(7) Related Party Transactions

MEC is wholly-owned by RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. RepMar subscribes for electricity generated by MEC and is charged for electricity usage based on a tariff rate of $0.12 cents per kilowatt hour for monthly bills less than 500 kilowatt hours, or $0.16 cents per kilowatt hour for bills greater than 500 kilowatt hours. In addition, RepMar purchases fuel from MEC at the same commercial terms and conditions as afforded to third parties. MEC's receivables from related parties are afforded more favorable payment terms than those extended to unrelated parties.

Total transactions for the years ended September 30, 2004 and 2003, and the related receivables from and payables to affiliates, are as follows:

	2004			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 1,963,634	$ 653,518	$ 531,336	$ 1,366
Majuro Water and Sewer Company, Inc.	195,060	33,773	312,548	-
Marshall Islands Social Security Administration	24,658	267,494	1,828	57,379
Majuro Resort, Inc.	277,093	246	86,944	-
Other	747,929	54,336	157,738	-
	$ 3,208,374	$ 1,009,367	$ 1,090,394	$ 58,745

	2003			
	Revenues	Expenses	Receivables	Payables
RepMar	$ 1,885,006	$ 490,713	$ 848,120	$ 31,423
Majuro Water and Sewer Company, Inc.	280,069	18,533	247,836	-
Marshall Islands Social Security Administration	34,501	244,213	2,169	58,925
Majuro Resort, Inc.	289,258	8,096	50,302	-
Other	790,278	130,691	276,463	-
	$ 3,279,112	$ 892,246	$ 1,424,890	$ 90,348

(7) Related Party Transactions, Continued

For the years ended September 30, 2004 and 2003, MEC received capital contributions from RepMar amounting to $173,994 and $0, respectively.

For the year ended September 30, 2003, MEC received Compact Section 214(a) funding of $1,866,667, passed through RepMar. Such funding is no longer available to MEC effective fiscal year 2004.

As of September 30, 2004 and 2003, MEC maintained a demand deposit account with an affiliated financial institution, amounting to $2,592.

(8) Commitment and Contingency

Commitment

MEC purchases petroleum products from Mobil Oil Micronesia, Inc. (Mobil) on a consignment basis whereby Mobil continues to hold ownership and title to the product while it is held in storage at the MEC terminal storage tanks. Title and risk on the product remains with Mobil until the product passes the boundary of the MEC terminal. The value of consignment petroleum products as of September 30, 2004 and 2003 is approximately $1,030,332 and $2,035,781, respectively. MEC assumes responsibility for the proper and safe storage/handling of the product while under MEC storage. However, MEC carries insurance coverage on such consignment inventories.

Contingency

Management of MEC acknowledges that it is currently dependent on RepMar and its affiliates to pay for actual services rendered in order to maintain MEC as a going concern. Should RepMar and its affiliates choose to discontinue payment for services rendered, MEC management may have to consider alternative measures including, among other possibilities, an increase in electricity and fuel rates to maintain MEC as a going concern.

(9) Risk Management

MEC 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. MEC 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.

(10) Subsequent Event

On December 17, 2004, the Cabinet endorsed an increase in electricity tariff rates effective January 1, 2005.

MARSHALLS ENERGY COMPANY, INC.

Schedule of Revenues, Expenses and
Changes in Net Assets by Source
Year Ended September 30, 2004
(With comparative information for the year ended September 30, 2003)

	Generation	Distribution	Contracts	Tank Farm	Jaluit	Wotje	Namdrik	MEC-Gas	Admin - istration	Totals 2004	Totals 2003
Operating revenues:											
Fuel and gas sales	$ -	$ -	$ -	$ 10,928,289	$ -	$ -	$ -	$ 386,528	$ -	$11,314,817	$ 9,341,838
Cost of sales	-	-	-	(9,061,806)	-	-	-	(106,617)	-	(9,168,423)	(7,384,111)
Gross profit on sales	-	-	-	1,866,483	-	-	-	279,911	-	2,146,394	1,957,727
Electric and service billings	8,443,630	12,992	-	-	93,766	34,446	34,705	-	-	8,619,539	8,872,780
Other income	7,324	58,942	30,388	23,818	13,111	3,675	-	1,380	52,512	191,150	272,413
Total operating revenues, net	8,450,954	71,934	30,388	1,890,301	106,877	38,121	34,705	281,291	52,512	10,957,083	11,102,920
Operating expenses:											
Fuel and lubricants	5,972,395	-	-	-	144,780	-	-	-	-	6,117,175	5,051,212
Salaries, wages and benefits	900,961	453,279	5,400	53,030	223,412	123,852	3,681	37,831	476,854	2,278,300	2,230,192
Repairs and supplies	562,439	515,005	-	80,144	43,056	17,861	2,279	44,805	61,732	1,327,321	1,922,008
Depreciation and amortization	851,738	108,505	-	31,741	9,566	-	-	9,087	114,392	1,125,029	1,069,713
Office	52,453	47,463	-	297	22,324	11,843	3,255	99,980	109,043	346,658	336,705
Gross revenue tax	-	-	-	-	-	-	-	-	342,635	342,635	288,322
Bad debts	-	-	-	-	-	-	-	-	274,237	274,237	282,463
Insurance	68,020	29,641	-	23,004	10,077	1,163	-	4,941	11,760	148,606	163,134
Diesel import tax	-	-	-	88,795	-	-	-	-	-	88,795	102,577
Staff training	-	-	-	-	-	-	-	-	76,562	76,562	49,387
Laundry and uniforms	20,106	29,198	-	-	2,074	4,473	122	-	2,898	58,871	21,385
Travel	14,041	22,550	-	-	-	191	-	-	18,833	55,615	49,558
Communications	3,340	5,138	-	300	(145)	-	-	1,075	21,676	31,384	56,866
Entertainment	-	-	-	-	-	-	-	-	21,968	21,968	26,784
Professional fees	-	-	-	-	-	-	-	-	10,426	10,426	3,050
Advertising	-	-	-	-	-	-	-	-	4,392	4,392	10,491
Miscellaneous	8,748	5,935	-	1,689	-	-	-	-	11,546	27,918	39,809
Total operating expenses	8,454,241	1,216,714	5,400	279,000	455,144	159,383	9,337	197,719	1,558,954	12,335,892	11,703,656
Operating income (loss)	(3,287)	(1,144,780)	24,988	1,611,301	(348,267)	(121,262)	25,368	83,572	(1,506,442)	(1,378,809)	(600,736)
Nonoperating income (expense):											
Compact funding	-	-	-	-	-	-	-	-	-	-	1,866,667
RepMar funding	-	-	-	-	-	-	173,994	-	-	173,994	-
Interest expense	(636,616)	-	-	-	-	-	-	-	-	(636,616)	(669,343)
Total nonoperating income (expense), net	(636,616)	-	-	-	-	-	173,994	-	-	(462,622)	1,197,324
Change in net assets	$ (639,903)	$ (1,144,780)	$ 24,988	$ 1,611,301	$ (348,267)	$ (121,262)	$ 199,362	$ 83,572	$ (1,506,442)	$ (1,841,431)	$ 596,588

See accompanying independent auditors' report.