

MICRONESIA PETROLEUM CORPORATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

INDEPENDENT AUDITORS' REPORT

Board of Directors
Micronesia Petroleum Corporation:

We have audited the accompanying statements of net assets of Micronesia Petroleum Corporation, a component unit of the State of Kosrae, as of September 30, 2005 and 2004, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

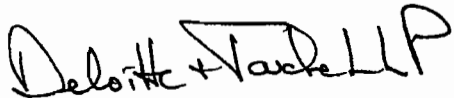
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and 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 the Company'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 the Micronesia Petroleum Corporation as of September 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed on note 10, a receivable is in arrears and the ultimate resolution of this matter is not predictable, but could have a material impact on the accompanying financial statements.

The Management's Discussion and Analysis on pages 3-4 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 Micronesia Petroleum Corporation'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 the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2006, on our consideration of Micronesia Petroleum Corporation's internal control over financial reporting and our tests of its compliance with certain 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.

A handwritten signature in black ink that reads "Deloitte + Tachell LLP". The signature is written in a cursive, stylized font.

June 2, 2006

MICRONESIA PETROLEUM CORPORATION

Management's Discussion and Analysis Year Ended September 30, 2005

Introduction

The following summarizes the financial position and results of operations of Micronesia Petroleum Corporation for fiscal years 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Assets:		
Current assets	\$ 1,326,014	\$ 1,238,582
Property, plant and equipment, net	2,278,236	2,353,264
Other assets	<u>31,824</u>	<u>31,824</u>
	<u>\$ 3,636,074</u>	<u>\$ 3,623,670</u>
Liabilities and net assets:		
Current liabilities	\$ 754,031	\$ 666,865
Long-term debt	1,117,283	1,035,198
Net assets	<u>1,764,760</u>	<u>1,921,607</u>
	<u>\$ 3,636,074</u>	<u>\$ 3,623,670</u>
Revenues, Expenses, and Changes in Net Assets		
	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 3,055,470	\$ 2,305,591
Costs and operating expenses	<u>3,182,806</u>	<u>2,412,653</u>
Net operating loss	<u>(127,336)</u>	<u>(107,062)</u>
Other income	41,096	112,898
Interest expense	(70,607)	(80,575)
Other expense	<u>-</u>	<u>(59,811)</u>
Total nonoperating expenses, net	<u>(29,511)</u>	<u>(27,488)</u>
Decrease in net assets	<u>\$ (156,847)</u>	<u>\$ (134,550)</u>

Financial Highlights

The total current assets increased by about 8% when compared to the 2004 figures. This is mainly due to other receivables of \$264,503, which represents a refund due from a fuel supplier.

Current liabilities and long-term liabilities increased due to the acquisition of a new note payable.

MICRONESIA PETROLEUM CORPORATION

Management's Discussion and Analysis Year Ended September 30, 2005

Decrease in net assets represents the loss for the year.

Operating revenues of the Corporation increased by about 33% with a total of \$3,055,470 for 2005 and \$2,305,591 in 2004. This increase is attributed to an adjustment in the selling price of petroleum products to cope with the rising cost of fuel during the first half of the fiscal year.

Gross profit rate decreased this year as compared to 2004 due to the increase in the cost of fuel.

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 3,055,470	\$ 2,305,591
Cost of goods sold	<u>2,786,069</u>	<u>1,952,053</u>
Gross profit	\$ <u>269,401</u>	\$ <u>353,538</u>
Gross profit rate	8.82%	15.33%

There was a continuous increase in the cost of fuel, and the Corporation was not able to implement another price increase in the selling price during the second half of the fiscal year. This resulted in a decrease in the gross profit rate and eventually resulted in a net loss for the year.

Operating expenses decreased by 14% from \$460,600 in 2004 to \$396,737 this year. Although the operating expenses decreased, the Corporation sustained a loss of \$156,847 due to the decrease in the gross profit rate.

Plan of Action for 2006

1. Upon availability of funds, to improve bulk plant facilities.
2. To continuously exert more efforts on the collection of receivables in arrears working hand in hand with legal counsel.
3. To monitor and secure a steady supply of fuel.
4. To monitor and control costs and operating expenses for the Corporation to be viable.
5. To come up with a policy/agreement between customers and the Corporation.

MICRONESIA PETROLEUM CORPORATION

Statements of Net Assets September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash	\$ 30,508	\$ 138,837
Trade receivables, net	348,987	376,783
Other receivables	264,503	-
Due from employees	13,144	13,135
Inventory	668,872	699,919
Prepaid expenses	-	9,908
Total current assets	1,326,014	1,238,582
Property and equipment, net	2,278,236	2,353,264
Investment in joint venture	31,824	31,824
	<u>\$ 3,636,074</u>	<u>\$ 3,623,670</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current portion of notes payable	\$ 412,016	\$ 354,350
Accounts payable	269,245	238,546
Accrued liabilities and others	10,492	11,691
Payable to Kosrae State Government	62,278	62,278
Total current liabilities	754,031	666,865
Notes payable, net of current portion	1,117,283	1,035,198
Total liabilities	1,871,314	1,702,063
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	2,278,236	2,353,264
Unrestricted deficit	(513,476)	(431,657)
Total net assets	1,764,760	1,921,607
	<u>\$ 3,636,074</u>	<u>\$ 3,623,670</u>

See accompanying notes to financial statements.

MICRONESIA PETROLEUM CORPORATION

Statements of Revenue, Expenses, and Changes in Net Assets Years Ended September 30, 2005 and 2004

	2005	2004
Sales	\$ 3,055,470	\$ 2,305,591
Cost of goods sold	<u>2,786,069</u>	<u>1,952,053</u>
Gross profit	<u>269,401</u>	<u>353,538</u>
Operating expenses:		
Salaries	130,889	150,916
Taxes	124,578	78,889
Depreciation	34,037	60,732
Professional fees	24,049	39,367
Travel and entertainment	12,905	23,857
Fuel	7,299	4,811
Communication	6,435	7,373
Repairs and maintenance	6,305	4,294
Insurance	6,268	6,329
Rent	5,400	5,400
Utilities	5,047	4,172
Office supplies	4,541	4,633
Plant supplies	3,645	2,190
Bank service charges	1,735	3,969
Freight, handling and storage	572	980
Vessel expenses	-	57,307
Miscellaneous	<u>23,032</u>	<u>5,381</u>
Total operating expenses	<u>396,737</u>	<u>460,600</u>
Loss from operations	<u>(127,336)</u>	<u>(107,062)</u>
Nonoperating revenues (expenses):		
Other income	41,096	112,898
Interest expense	(70,607)	(80,575)
Loss on sale of fixed assets	<u>-</u>	<u>(59,811)</u>
Total nonoperating expenses, net	<u>(29,511)</u>	<u>(27,488)</u>
Decrease in net assets	(156,847)	(134,550)
Net assets at beginning of year	<u>1,921,607</u>	<u>2,056,157</u>
Net assets at end of year	<u>\$ 1,764,760</u>	<u>\$ 1,921,607</u>

See accompanying notes to financial statements.

MICRONESIA PETROLEUM CORPORATION

Statements of Cash Flows Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	\$ 3,083,266	\$ 2,304,798
Cash paid to suppliers for goods and services	(3,138,234)	(2,275,798)
Cash paid to employees for services	(130,889)	(151,094)
Net cash used in operating activities	<u>(185,857)</u>	<u>(122,094)</u>
Cash flows from noncapital financing activities:		
Other income	41,096	112,898
Payment of interest expense	(70,607)	(80,397)
Repayment of notes payable	(160,249)	(143,458)
Acquisition of notes payable	300,000	-
Net cash provided by (used in) noncapital financing activities	<u>110,240</u>	<u>(110,957)</u>
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(32,712)	(6,324)
Proceeds from the sale of fixed assets and others	-	72,721
Net cash (used in) provided by capital and related financing activities	<u>(32,712)</u>	<u>66,397</u>
Net decrease in cash	(108,329)	(166,654)
Cash at beginning of year	138,837	305,491
Cash at end of year	<u>\$ 30,508</u>	<u>\$ 138,837</u>
Reconciliation of loss from operations to net cash used in operating activities:		
Operating loss	\$ (127,336)	\$ (107,062)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	107,740	134,436
(Increase) decrease in assets:		
Receivables	(236,716)	(793)
Inventory	31,047	(323,032)
Prepayments	9,908	7,254
Increase (decrease) in liabilities:		
Accounts payable	30,699	166,727
Accrued liabilities	(1,199)	376
Net cash used in operating activities	<u>\$ (185,857)</u>	<u>\$ (122,094)</u>

See accompanying notes to financial statements.

MICRONESIA PETROLEUM CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

(1) Organization

Micronesia Petroleum Corporation (the Company) was established on November 14, 1996 by Kosrae State Law 6-98 and 7-28. The primary purpose of the Company is to operate and manage the State's fuel storage facilities and to engage in the business of buying and selling petroleum products.

The affairs of the Company are managed by a five-member board consisting of representatives of Kosrae State Government and the private sector. Daily operations of the Company are delegated to the Chief Executive Officer, who is hired by and serves at the pleasure of the Board.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accounting policies of Micronesia Petroleum Corporation 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 Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Company has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The Company has adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No. 37, "Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Disclosures" and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

- Nonexpendable – Net assets subject to externally imposed stipulations that require the Company to maintain them permanently. For the years ended September 30, 2005 and 2004, the Company does not have nonexpendable restricted net assets.
- Expendable – Net assets whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.

MICRONESIA PETROLEUM CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

- **Unrestricted:**

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

New Accounting Standards

In fiscal year 2005, MPC implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). No material impact occurred as a result of implementing the Statement. In 2006, MPC will implement GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Company has not evaluated the financial statement impact of GASB Statement No. 42.

Cash

For purposes of the statements of net assets and of cash flows, cash represents cash on hand and in bank accounts. As of September 30, 2005 and 2004, up to \$100,000 of cash balances were subject to FDIC insurance. Balances in excess of FDIC insurance are not collateralized. Accordingly, these deposits are exposed to custodial credit risk. There are no significant differences between cash per book and per bank balances.

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Lives of equipment, vehicles, furniture and fixtures and bulk plant assets range from 3 to 40 years.

Inventory

Inventory is substantially carried at the lower of cost (first-in, first-out) or market.

Management 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 disclosures 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.

Investment

Investment in a joint venture is carried at management's estimate of net realizable value.

MICRONESIA PETROLEUM CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

Accounts Receivable

Accounts receivable are due from businesses and individuals located in the Federated States of Micronesia and in the Republic of Nauru. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb potential losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience.

	<u>2005</u>	<u>2004</u>
Trade receivables	\$ 763,930	\$ 791,726
Allowance for doubtful accounts	(414,943)	(414,943)
	\$ <u>348,987</u>	\$ <u>376,783</u>

Other receivables in 2005 consist primarily of a refund due from a fuel supplier.

(3) Investment

At September 30, 2005 and 2004, MPC held a 55% interest in a joint venture, Micronesia Petroleum Corporation-Yap (MPC-Yap). MPC-Yap's main business objective is to provide competitive priced petroleum products to support the economic activities in the State of Yap. MPC's participation in MPC-Yap primarily involves management of the joint venture. In 2001, management determined that it has no substantial control over this investment and its assets and has elected to record the investment at its best estimate of net realizable value. Management has entered into an agreement to sell its investment in MPC Yap to the Yap State Government for \$200,000, which includes payment of the balance and certain other receivables. No gain was recognized as a result of this agreement.

(4) Property, Plant and Equipment

A summary of property and equipment at September 30, 2005 and 2004, is as follows:

	<u>Balance at October 1, 2004</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2005</u>
Bulk plant	\$ 2,506,000	\$ -	\$ -	\$ 2,506,000
Vehicles and tank trucks	295,664	-	-	295,664
Office equipment	45,734	1,870	-	47,604
Furniture and fixtures	61,521	-	-	61,521
Machines and equipment	371,650	30,842	(4,905)	397,587
Buildings and improvements	207,346	-	-	207,346
Land	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
	3,687,915	32,712	(4,905)	3,715,722
Less accumulated depreciation	(1,334,651)	(107,740)	4,905	(1,437,486)
Net investment in plant	\$ <u>2,353,264</u>	\$ <u>(75,028)</u>	\$ <u>-</u>	\$ <u>2,278,236</u>

MICRONESIA PETROLEUM CORPORATION

Notes to Financial Statements September 30, 2005 and 2004

(4) Property, Plant and Equipment, Continued

	Balance at October 1, 2003	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2004
Bulk plant	\$ 2,506,000	\$ -	\$ -	\$ 2,506,000
Vehicles and tank trucks	585,074	-	(289,410)	295,664
Office equipment	45,597	137	-	45,734
Furniture and fixtures	61,221	300	-	61,521
Machines and equipment	366,307	5,343	-	371,650
Buildings and improvements	206,802	544	-	207,346
Land	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
	3,971,001	6,324	(289,410)	3,687,915
Less accumulated depreciation	<u>(1,357,093)</u>	<u>(134,436)</u>	<u>156,878</u>	<u>(1,334,651)</u>
Net investment in plant	\$ <u>2,613,908</u>	\$ <u>(128,112)</u>	\$ <u>(132,532)</u>	\$ <u>2,353,264</u>

(5) Notes Payable

Notes payable consist of the following at September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Loan payable to Kosrae State Government, in the original amount of \$300,000, due in monthly installments of \$2,628, interest at 1%, maturing on February 1, 2009.	\$ 272,500	\$ 272,500
Loan payable to Kosrae State Government, primary government in the original amount of \$300,000 due in monthly installments of \$2,000. Commencing June 1, 2008 installments shall be increased to \$4,000 per month, interest at 1%.	292,000	-
Loan payable to FSM Development Bank in the original amount of \$500,000 due in monthly installments of \$5,100, with a balloon payment of approximately \$264,000 due at maturity. Interest is at 9%, maturity in September 2008, collateralized by the property and inventory of the Company.	331,231	360,725
Term loan payable to Bank of the FSM, interest at 2.75% greater than TCD rate pledged as collateral by Kosrae State Government, collateralized by a first security interest in essentially all MPC assets and a time certificate of deposit held by Kosrae State Government.	200,640	251,099
Loan payable to FSM Development Bank, ten year term, interest at 5%, monthly repayment of \$7,958.	<u>432,928</u>	<u>505,224</u>
Total debt	1,529,299	1,389,548
Less current portion	<u>(412,016)</u>	<u>(354,350)</u>
Long-term debt, net of current portion	\$ <u>1,117,283</u>	\$ <u>1,035,198</u>

MICRONESIA PETROLEUM CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

(5) Notes Payable, Continued

Future maturities of the above debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 412,016	\$ 51,339
2007	136,038	17,818
2008	347,017	35,870
2009	366,594	37,319
2010	70,407	3,668
2011-2014	<u>197,227</u>	<u>9,861</u>
	<u>\$ 1,529,299</u>	<u>\$ 155,875</u>

Changes in long-term liabilities during the year ended September 30, 2005 occurred as follows:

<u>Balance at beginning of year</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance end of year</u>	<u>Balance due currently</u>
\$ <u>1,389,548</u>	\$ <u>300,000</u>	\$ <u>160,249</u>	\$ <u>1,529,299</u>	\$ <u>412,016</u>

Changes in long-term liabilities during the year ended September 30, 2004 occurred as follows:

<u>Balance at beginning of year</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance end of year</u>	<u>Balance due currently</u>
\$ <u>1,533,006</u>	\$ <u>-</u>	\$ <u>143,458</u>	\$ <u>1,389,548</u>	\$ <u>354,350</u>

(6) Payable to Kosrae State Government

During fiscal year 1997, Kosrae State Government incurred expenditures under various appropriations for Micronesia Petroleum Corporation. The amount payable to Kosrae State Government at September 30, 2005 and 2004, reflects expenditures incurred in excess of such appropriations. Kosrae State Government and Micronesia Petroleum Corporation are currently negotiating a payment schedule for the amount.

(7) Subsequent Event

Management is of the opinion that the Company is a tax-exempt organization and is therefore not liable for gross receipts taxes. The FSM National Government Customs Division has maintained that Micronesia Petroleum Corporation is not tax exempt. The Company and the FSM National Government have attempted to resolve this issue through their respective attorney general's offices. A compromise and settlement has been reached wherein MPC will pay \$200,000 in 20 quarterly installments of \$10,000 to commence during the second quarter of calendar year 2006. No liability has been recorded for any portion of this balance as management will record the liability in fiscal year 2006, which is when the matter was resolved.

MICRONESIA PETROLEUM CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

(8) Risk Management

Micronesia Petroleum Corporation purchases commercial insurance to cover its potential risks from refueling operations, maintains workmen's compensation coverage and purchases commercial coverage relative to its risks covering inventory and facilities. Micronesia Petroleum Corporation is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

(9) Significant Revenue Sources

Sales to (generated from) one Kosrae State component unit accounted for \$1,100,998 or 36% of total sales for the year ended September 30, 2005 and \$756,908 or 33% in 2004.

(10) Contingency

As of September 30, 2005, approximately \$385,000 of receivables is due from one customer. The customer's ability to pay appears contingent on certain future events, of which management cannot currently predict the outcome. Management is of the opinion that the balance will ultimately be collectible. However, an allowance for a portion of this balance has been made in the accompanying financial statements. If the balance is not collectible, the accompanying financial statements could be materially impacted.

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

Board of Directors
Micronesia Petroleum Corporation:

We have audited the financial statements of the Micronesia Petroleum Corporation (MPC), as of and for the year ended September 30, 2005, and have issued our report thereon dated June 2, 2006. 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

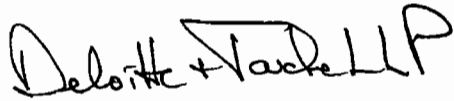
In planning and performing our audit, we considered Micronesia Petroleum Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Micronesia Petroleum Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors and management of MPC and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Deloitte + Hacke LLP". The signature is written in a cursive, stylized font.

June 2, 2006