

OBNR Comment

This document - the 1997 'audited' consolidated financial statement for BVI-registered Marc M. Harris et Cie S. A. and subsidiaries - was the document that The Harris Organization was relying on to convince Judge Moore that the group was solvent. The 'audit' was carried out by Luis Ovidio Rodrigues, of Panama-based Servicios Profesionales Asociados S. A.

The Harris Organization argued at trial that this financial statement clearly showed that the group was financially healthy.

OBNR argued that the document had not been compiled in accordance with generally accepted accounting principles and was worthless in determining the financial position of the group. For example, the audit opinion at the beginning of the financials, which should conform to a standard GAAP format, is highly irregular.

Judge Moore commented: "The 1997 consolidated financial statements prepared by Servicios were also of questionable validity. They included an opinion letter whose language deviated substantially from the language normally used in an independent auditor's opinion letter. Servicios did not simply state that the financial statements were a fair and material representation of the financial position of The Harris Organization, and that there was a reasonable basis for this opinion. Instead, Servicios opined rather unusually that the financial statements 'present adequate solvency and equity that demonstrate the financial solidity' of The Harris Organization."

Judge Moore ruled that OBNR was "justified" in discounting the value of the financial statement, as well as a Certificate of Solvency that Rodrigues had issued to The Harris Organization BEFORE he had started the first ever audit of the group. The circumstances of the letter of solvency and 'audited' financial statements "reasonably cast doubt on their independence, objectivity and comprehensiveness", ruled the judge.

Despite repeated requests from OBNR, The Harris Organization refused to provide any supporting documentation for the financials. OBNR argued that this was because there were none to offer and that the financial statement was a fabrication.

You will notice a glaring mistake in the financials on Page 4, where the column of figures used to calculate the 'Net Cash furnished by the operational activities' has been added up incorrectly. If added up as shown, the total for this column should come to \$10,878,936, yet Rodrigues calculated it at minus \$1,633,706. It appears that the figure of \$6,256,321 for 'Unrealized profit in investments' is missing parentheses, which would have made Rodrigues' calculation accurate. This is particularly interesting since Marc Harris' CPA licence was suspended in Florida in 1990 partly because he was unable to add and subtract columns of figures accurately.

Also note on Page 8 that Rodrigues has not consolidated the share capital of the organization, even though the financial statements are supposed to be consolidated.

In his ruling, Judge Moore picked up on documentary evidence presented at the trial and observed that "clearly the definition of 'CPA' does not carry the validity in Panama as it does in the USA".

Incredibly, Luis Ovidio Rodrigues is not only a former President of the organization that represents CPAs in Panama but also currently sits on its ethics committee!

MARC M. HARRIS ET CIE., S.A. AND SUBSIDIARIES

Report of the Consolidated Financial Statements

For the year ended December 31st., 1997

Panama, Republic Panama

MARC M. HARRIS ET CIE., S.A. AND SUBSIDIARIES

Consolidated Financial Statements

For the year ended December 31st., 1997

Contents

Report of the Public Accountants	1
Consolidated Financial Statements	
Consolidated General Balance	2
Consolidated Profit and Loss Statement and Retained Profits Statement	3
Cash Flow Consolidated Statement	4
Notes to the Consolidated Financial Statements	5-8

Servicios Profesionales Asociados, S. A.

CONTADORES PUBLICOS AUTORIZADOS

APARTADO 6-4520. EL DORADO PANAMA, REP. DE PANAMA

TRANSLATION / TRADUCCION

Panama, Republic of Panama
November 12, 1998

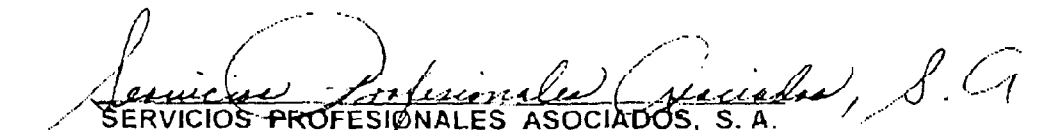
Board of Directors
MARC M. HARRIS ET CIE, S. A.

This opinion is for the exclusive use of the management of **MARC M. HARRIS ET CIE, S. A. ITS SUBSIDIARIES AND MARC M. HARRIS.**

We have audited the accompanying consolidated balance sheet of **MARC M. HARRIS ET CIE, S. A. AND SUBSIDIARIES**, as of December 31, 1997 and the related consolidated income, retained profits statement and consolidated cash flow statements for the aforementioned year. The management of **MARC M. HARRIS ET CIE, S. A. AND SUBSIDIARIES** is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and carry out an audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining the evidence, on a test basis, that supports the amounts and disclosures in the financial statements. An audit also assesses the accounting principles used and important management estimates, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the above mentioned financial statements reasonably present, adequate solvency and equity that demonstrate the financial solidity, in all material aspects, the financial position of **MARC M. HARRIS ET CIE, S. A. AND SUBSIDIARIES**, as of December 31, 1997 in conformity with generally accepted accounting principles.


SERVICIOS PROFESIONALES ASOCIADOS, S. A.
Certified Public Accountants

MARC M. HARRIS ET CIE, S.A. AND SUBSIDIARIES
CONSOLIDATED GENERAL BALANCE
As of the 31st. of December, 1997
 (Expressed in US\$)

ASSETS

ASSETS

Cash and Cash Equivalents (note 3)	US\$ 8,467,045
Accounts Receivables (note 4)	5,370,250
Investments (note 5)	39,860,917
Properties, Equipment, and Improvements, at cost less accrued depreciation and amortization (note 6)	1,831,747
Equity	9,703,053
Other Assets	<u>552,640</u>
TOTAL ASSETS	US\$ <u>65,785,652</u>

LIABILITIES AND SHAREHOLDERS EQUITY

LIABILITIES

Current & Long Term Liabilities (Note 7)	US\$ 17,550,297
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SHAREHOLDERS EQUITY

Share Capital (note 8)	47,317,599
Retained Profits	<u>917,756</u>
Total Shareholders Equity	<u>48,235,355</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	US\$ <u>65,785,652</u>

Please see the attached notes to the financials

MARC M. HARRIS ET CIE, S.A. AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS STATEMENT

For the year ended december 31st., 1997

(Expressed in US\$)

INCOME

Service Income	US\$	7,415,639
Marked to Market Profits of Securities		6,256,321
Realized Profits in Securities Transactions		1,232,142
Earned Commissions		588,900
Dividends		39,632
Rent Income		18,210
Other Income		<u>1,066,311</u>
Gross Income before general and administrative expenses		16,617,155

GENERAL AND ADMINISTRATIVE EXPENSES

General and Administrative Expenses		<u>14,514,846</u>
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NET PROFIT FOR THE YEAR	US\$	<u><u>2,102,309</u></u>
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RETAINED PROFITS STATEMENT

As of December 31st., 1997

(Expressed in US\$)

Balance at the Beginning of the year	US\$	-
Plus: Net Profit for the year		2,102,309
Less: Paid Dividends		1,184,553
NET PROFIT TO DATE	US\$	<u><u>917,756</u></u>

Please see attached notes to the financials

MARC M. HARRIS ET CIE. S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
For the year ended the 31st. of December, 1997
 (Expressed in US\$)

CASH FLOW FROM THE OPERATIONAL ACTIVITIES:

Net Profit	US\$	2,102,309
Reconciliation of the net profit with the net cash of the operating activities:		
Depreciation		595,952
Unrealized profit in investments		6,256,321
Increase in Assets		
Accounts Receivables		(5,370,250)
Equity		(9,703,053)
Other Assets		(552,640)
Increase in Liabilities		
Current & Long Term Liabilities		<u>17,550,297</u>
Net cash furnished by the operational activities		(1,633,706)

CASH FLOW FROM THE INVESTMENT ACTIVITIES:

Investments		(33,604,596)
Acquisition of Properties, Furniture and Equipment		<u>(2,427,699)</u>
Net Cash used in the investment activities		(36,032,295)

CASH FLOW FROM THE FINANCIAL ACTIVITIES:

Shareholders Contribution		47,317,599
Dividends		<u>(1,184,553)</u>
Net cash furnished by the financial activities		46,133,046
NET INCREASE OF CASH		<u>8,467,045</u>
CASH BALANCE AT THE BEGINNING OF YEAR		.
CASH BALANCE AT YEAR END	US\$	<u>8,467,045</u>

Please see the attached notes to the financials

MARC M. HARRIS ET CIE, S. A. AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS STATEMENT
For the year ended December 31st., 1997
(Expressed in US\$)

1. GENERAL INFORMATION:

Marc M. Harris ET CIE, S.A. was incorporated under the laws of the British Virgin Islands Government (BVI) on July 5, 1996.

2. SUMMARY OF THE MOST IMPORTANT ACCOUNTING POLICIES :

These financial statements have been prepared in accordance to International Rules and Regulations of Accounting, and the most important accounting policies are the following:

a- Consolidating Principles:

The Consolidated Financial Statements include the assets, liabilities and Operational results of Marc M. Harris ET CIE, S.A. and its subsidiaries: HARRIS HOLDINGS INC., THIRD WORLD HOLDINGS, S.A. and THE MARC M. HARRIS UNIVERSITY CORP. All the balances and significant transactions amongs intercompanies have been eliminated in the consolidation.

b- Securities:

The commercial securities are presented at a reasonable value, based substantially on market quotations given by stock brokers. The Profits and Losses which have not been realized yet over these securities are included in the current operational results.

The investment securities, with the intention of retaining them until their maturity, are presented at acquisition cost. The registered amounts are adjusted if their value suffers a significant or permanent devaluation in their original cost.

c- Properties, Furniture, Equipment and Improvements:

Properties, Furniture, Equipment and Improvements are presented at cost, net after its accumulated depreciation or amortization. Significant improvements are capitalized, meanwhile repairs and minor maintenance costs which do not extend the useful life span or improve the asset, are charged directly to expenses when they occur. Depreciation and amortization are charged to the current operations, using the straight line method, and its accrued over the useful life span of the related assets.

d- Organization Cost:

The organization cost is amortized against current operations by the straight line method, in a three year period.

e- Interest Income and Expenses:

All interest income and expenses are registered under the method of accrual. When the interest collection is doubtful, the accrual of the income is not registered and the accrual interest is reversed until it is collected.

f- Reasonable Value of Financial Instruments:

The estimates of the reasonable value of the financial instruments in the balance sheet are considered at a determined date, based on relevant market information and that of the financial instruments themselves. These estimations do not reflect premiums or discounts that may result if the company was to liquidate the entire portfolio at any given moment.

g- The Use of Estimates:

The preparation of the consolidated financial statements in accordance with the generally accepted accounting principles requires that the general management prepare estimates and suppositions that affect the reported amounts of assets and liabilities and revelations of asset and liability contingencies at the date of the financials, and the reported amounts of income and expenses during the period. The actual results may differ from these estimates.

3. CASH AND CASH EQUIVALENT:

As of December 31st, 1997, the cash and cash equivalent is detailed as follows:

Petty Cash	\$	5,344
Cash at hand		7,154,455
Restricted funds		<u>1,307,246</u>
	\$	<u>8,467,045</u>

The restricted funds are composed of bank deposits sequestered in a judicial process.

4. ACCOUNTS RECEIVABLES:

Accounts Receivables as of December 31st, 1997, are detailed as follows:

Clients	\$	140,356
Employee Loan Program		39,997
Rent Receivable		11,400
Suscriptions Receivable		4,000,000
Other Receivables		<u>1,172,497</u>
	\$	<u>5,370,250</u>

5. INVESTMENTS:

	<u>Historic Cost</u>	<u>Market Value</u>	<u>Difference</u>
Venture Capital & Private Placements	\$ 5,996,106	\$ 8,519,136	\$ 2,523,030
St. Jean Du Nord	3,252,530	4,878,795	1,626,265
Mutual Funds	1,650,516	3,297,722	1,647,206
Warrants	1,149,051	2,327,403	1,178,352
Common and Special Shares	493,552	505,987	12,435
Special Corporate Bonds	356,974	356,000	(974)
Money Market Inv. Trust	94,996	76,909	(18,087)
Securities in Physical Custody	7,856,368	7,856,368	
Brokers in New York	5,735,451	5,735,451	
Brokers in Texas	3,783,084	3,783,084	
Apartments	1,149,321	1,149,321	
Bank in Florida	1,052,685	1,052,685	
Brokers in Oregon	57,815	57,815	
Other	264,241	264,241	
	<u>\$ 32,892,690</u>	<u>\$ 39,860,917</u>	<u>\$ 6,968,227</u>

The apartments are located in The Republic of Panama in Condo Buildings of the following names: Royal Center, Mar del Plata and Las Marquesas.

6- PROPERTIES, FURNITURE, EQUIPMENT AND IMPROVMENTS:

Computer Equipment	\$	837,137
Furniture		700,083
Office Equipment		497,753
Automobiles		298,999
Improvements to Rented Properties		<u>93,727</u>
		2,427,699
Accrued Depreciation and Amortization		<u>(595,952)</u>
	\$	<u><u>1,831,747</u></u>

7- CURRENT LONG TERM LIABILITIES:

Constitute long term liabilities that are summarized through the holding companies that are detailed as follows:

THIRD WORLD HOLDINGS	\$	15,966,567
HARRIS HOLDINGS, INC.		<u>1,583,730</u>
	\$	<u><u>17,550,297</u></u>

8- SHARE CAPITAL:

HARRIS UNIVERSITY	\$	20,000
THIRD WORLD HOLDINGS		6,240,355
HARRIS HOLDINGS, INC.		21,990,440
MMH ET CIE, S. A.		<u>19,066,804</u>
	\$	<u><u>47,317,599</u></u>

The Authorized Share Capital of Marc M. Harris ET CIE, S. A. and its SUBSIDIARIES is composed of \$ 20,000,000, of common stocks, with a par value of U. S. \$1.00 each, issued and in circulation: \$20,000,000.

The Authorized Share Capital of Preferred Stock of Marc M. Harris FT CIE, S. A. and SUBSIDIARIES is \$45,000,000, issued and in circulation \$27,317,599, clasified in preferred stocks Type: 1a, 1b, 2a, 2b, 3a, 3b, 4a and 4b.