

June 27, 2008

To the Board of Directors of
The Diving Seagull, Inc.:

In planning and performing our audit of the financial statements of The Diving Seagull, Inc. (the Company), as of and for the year ended September 30, 2007, on which we have issued our report dated June 27, 2008, we developed the following recommendations concerning matters related to the Company's internal control and certain observations and recommendations on other accounting and administrative matters. Our observations and recommendations are summarized below.

Finding Number 1 - Monitoring of Crew Advances

Comment: The Company does not maintain a detailed record of crew advances. Some of the crew advances still recorded as being uncollected pertain to prior year trips.

Recommendation: Crew advances should be monitored on a regular basis. A schedule should be prepared and maintained to monitor the advances and payments to each crew member. The schedule should be able to identify to the specific amount due from any crew member at any point in time. Periodic confirmations of the accuracy of this information should be performed.

Finding Number 2 - Monitoring of Fish Sales

Comment: The Company does not track interim collections from its Broker as it relies on the "Final Settlement" when recording revenue. The Company does not appear to track the receivable from or payable to Broker at any point in time.

Recommendation: The Company should maintain a detailed accounting of its Broker activities on a transactional basis.

Finding Number 3 - Non-timely Recording and Payment of Crew Payroll

Comment: The Company records and pays interim payroll expenses based on invoices sent by the Captain. An adjustment is recorded and paid upon final Broker settlement. When the Company receives final settlement, no apparent payroll adjustment was recorded for the prior partial payments.

The Board of Directors in a December 2006 meeting approved a \$15,000 bonus to on shore crew. However, the bonus was not paid to the crew since the Captain apparently ordered the deferral and required that the bonus be used to pay dry docking salaries. However, no written documentation exists to support this matter.

Recommendation: The Company should ensure that payroll is timely processed and recorded and that employees are paid based on existing agreement.

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Finding Number 4 - Petty Cash - Vessel

Comment: In our examination of the vessel's petty cash fund, we noted that \$23,680 of the recorded balance of \$43,872 is unsupported. We also noted another recorded petty cash vessel general ledger account as of September 30, 2007 approximating \$5,000 for which no detail was available.

Recommendation: Since cash is an account that is susceptible to theft, we recommend that management closely monitor cash balances.

Finding Number 5 - Accrued Withholding Taxes

Comment: The Company records an accrual for income tax and FSM social security each pay-period. However, upon remittance of withheld taxes, an expense is recognized instead of reversing the accrual. As a result, the payroll liability is overstated as are expenses.

Recommendation: The accrual for withholding tax and social security should be charged upon payment.

Finding Number 6 - Management Fee

Comment: In the prior year, we reported an instance of double recording and payment of a management fee. The fee was paid twice for Trip 2006-06 in the amount of \$20,000. An audit adjustment was proposed to record a receivable, which is still outstanding as of September 30, 2007.

Recommendation: We recommend that the amount be collected or resolved.

Finding Number 7 - State of Accounting

Comment: The general state of the Company's accounting capability decreased during fiscal year 2007.

Recommendation: We recommend that the Company obtain the services of a qualified controller or a general ledger accountant. The Company does not necessarily require a full time employee but the Company definitely requires assistance in maintaining its general ledger and in financial reporting. We recommend that the Company explore its options in this matter.

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This report is intended solely for the information and use of Board of Directors and management of the Company, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

