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PRIME AIR INC  
Form 10KSB/A  
May 06, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-KSB/A  
Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-28249

PRIME AIR, INC.  
(Exact name of Registrant as specified in charter)

Nevada  
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Not Applicable  
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State or other jurisdiction of  
incorporation or organization

I.R.S. Employer I.D. No.

Suite 601 - 938 Howe Street, Vancouver, British Columbia,  
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V6Z 1N9  
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(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: (604) 684-5700

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Check whether the Issuer (1) has filed all reports required to be filed by section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: -0-

Documents Incorporated by Reference: None

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PRIME AIR, INC.

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### FORWARD-LOOKING STATEMENTS

Some of the information presented in or incorporated by reference into this report constitutes "forward-looking statements." Although the Company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its proposed business and operations, it is possible that actual results may differ materially from its expectations. Factors that could cause actual results to differ from expectations include but are not limited to the inability of the Company to raise the additional capital necessary to fund its principal operations, dependence on a limited number of persons, and ability to attract tenants and air service to its terminal facility at the Permberton, British Columbia airport.

### PART I

#### ITEM 1. DESCRIPTION OF BUSINESS

##### General

Prime Air, Inc, a Nevada corporation (the "Company") is engage in the business of managing and operating a commercial and local air terminal facility in the Whistler - Pemberton, British Columbia, Canada, area. Thereafter, it intends to operate aircraft service out of the facility. The Company conducts its operations through its subsidiary, Prime Air, Inc. ("Prime Air (BC)"), a company originally incorporated under the laws of the Province of British Columbia, Canada, on March 10, 1989, under the name "High Mountain Airlines

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Inc." Prime Air (BC) has entered into a lease and operating agreement with the Village of Pemberton, British Columbia, Canada, to plan, develop, construct, manage, and operate a terminal facility at the Pemberton Airport. Prime Air (BC) has constructed the basic terminal building and proposes to facilitate air service to Pemberton Airport to serve the nearby resort community of Whistler. In addition, on September 26, 2003, the Company entered into an agreement with Galvin Flying Service, Inc. to provide Fixed Basic Operations (FBO) services in anticipation providing air service to Pemberton. Previously, the Company entered into a Memorandum of Understanding with Voyageur Airways Limited ("Voyageur") to provide scheduled and charter passenger and cargo service from Vancouver International Airport. That Memorandum of Understanding has expired, although the parties continue to have discussions. Currently, there is no commercial passenger service to Pemberton Airport.

### History

Prime Air, Inc. was incorporated in the State of Nevada on November 10, 1996, for the purpose of changing the domicile of the Company from the State of Delaware. The predecessor to the Company was incorporated in the State of Delaware on April 4, 1995. The change of domicile was completed on December 15, 1997.

Prior to incorporation in the State of Delaware, the Company was originally incorporated pursuant to the laws of the State of Utah on August 30, 1993, under the name "Astro Enterprises, Inc." (referred to hereafter as "the Utah Corporation"). The Utah corporation changed its name to "Prime Air, Inc." on June 28, 1994.

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In June 1994, the Utah Corporation entered into a Merger Agreement with Prime Air (BC). Pursuant to the terms of the Merger Agreement, the shareholders of Prime Air (BC) exchanged all of their outstanding Prime Air (BC) shares for a controlling number of shares of the Utah corporation, such that upon completion of the exchange, the shareholders of Prime Air (BC) owned approximately 90% of the outstanding shares of the Utah Corporation and Prime Air (BC) became a wholly owned subsidiary of the Utah Corporation. The transaction was not a statutory merger. Management believes that the closing of such agreement was effected on June 28, 1994. In connection with the exchange of shares, the Utah Corporation effected a one-for-one hundred reverse split of its outstanding shares effective June 28, 1994, immediately prior to such closing. As a result of the stock-for-stock exchange, the former shareholders of Prime Air (BC) received 2,700,000 post-reverse split shares, the 170 existing shareholders of the Utah Corporation retained 120,000 post-reverse split shares, and the Worthington Company, an entity controlled by Mr. Paul Parshall, retained 180,000 post-reverse split shares. In addition, the Worthington Company received consulting fees totaling \$70,000 US from Prime Air (BC) for services performed in connection with the reorganization. Also, as a part of the reorganization, Mr. Parshall resigned as the sole director of the Utah Corporation and appointed Mr. Blaine Haug as the sole director. Also in connection with the reorganization, the name of the Utah Corporation was changed to Prime Air, Inc. and the number of authorized shares of Common Stock of the Utah Corporation was changed to 25,000,000 shares, par value \$0.001. At the time of the stock-for-stock exchange between the Utah Corporation and Prime Air (BC), the Utah Corporation had no assets. The reorganization was entered into because Prime Air (BC) wanted controlling interest in a public shell corporation.

On or about April 4, 1995, the Utah Corporation effected a change of domicile to the State of Delaware by incorporating another corporation in such state, acquiring all of the assets and liabilities of the Utah Corporation, and

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issuing shares of the Delaware corporation to the shareholders of the Utah Corporation on a one-for-one basis. The Utah Corporation was voluntarily dissolved by the State of Utah on May 18, 1995. The change of domicile was initiated and completed based upon the recommendations of Mr. Paul Parshall, an officer and director of the Utah Corporation at such time.

The original purpose of the Utah Corporation incorporated in 1993 as set forth in its articles of incorporation, was to acquire the assets and certain liabilities of another Utah corporation incorporated in 1985 and previously dissolved by the State of Utah on May 1, 1990, and also incorporated under the name "Astro Enterprises, Inc." Current management of the Company, none of whom were affiliated with the Utah Corporation prior to the share exchange in June 1994, believe that the former management of the Utah Corporation at the time of its incorporation issued approximately 120,000 shares of the company's common stock to the shareholders of the corporation dissolved in 1990 with the same name thus creating approximately 170 shareholders of the Utah Corporation. Management does not believe that any other relationship existed between the two entities or with former management of the corporation dissolved in 1990 and known as Astro Enterprises, Inc.

Commencing February 1998, the Company attempted to offer and sell up to 2,000,000 units (the "Units"), each Unit consisting of one share of common stock

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of the Company and one Class A Warrant and one Class B Warrant. The Units were offered by British West Indies Securities Company Limited as selling agent for the offering. The offering terminated March 31, 1998, and no Units were sold. The selling agreement with British West Indies Securities Company Limited also expired on such date.

On April 23, 1998, the shareholders approved a forward split of the outstanding shares of common stock of the Company at the rate of two shares for each one share outstanding. The forward stock split was effective on May 15, 1998. In addition, the shareholders approved a stock option plan on April 23, 1998, known as the 1998 Stock Option and Stock Appreciation Right Plan (the "Plan"). The Plan provides for the issuance of options to acquire up to 1,000,000 shares of common stock of the Company. No options have been granted pursuant to the Plan - that plan has subsequently been rescinded in its entirety.

Commencing June 1998, the Company attempted to offer and sell up to 8,000,000 common shares. This offering terminated August 31, 1998. No shares were sold. Commencing October 1998, the Company engaged the Investment Banking firm of Chanen, Painter & Company Ltd. for the purpose of providing equity financing to enable start up of air services. That engagement was not completed and all associations thereto expired and were terminated in February 2000.

The Company entered into a "Memorandum of Proposed Agreement" with 519222 Ontario Limited, a corporate entity associated with Voyageur Airways Limited, which, subject to the final approval of Voyageur and the Company, will allow a merger which combines 25% of the assets of Voyageur with 70% of the assets of the Company. No definitive agreement was ever entered into and no transaction with Voyageur is contemplated at this time. However, although no agreement was entered into, Voyageur continues to work with the Company for the purpose of establishing an air service. See "Proposed Air Service" contained in the Item 1.

Prime Air, Inc., does not intend to own or directly operate aircraft. However, Prime Air, Inc. intends to derive income from the Company, "wet

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leasing" aircraft for the purpose of transporting passengers from and to the Pemberton facility and intends to derive income from leasing/operating the Terminal Building as a rental property for retail space available and collect and receive passenger fees from individuals utilizing the facility as described and permitted in the "Airport Lease and Operating Agreement" discussed below.

### Airport Lease And Operating Agreement

On October 29, 1993, Prime Air (BC) entered into a Lease and Operating Agreement (the "Airport Agreement") with the Corporation of the Village of Pemberton, British Columbia, Canada (hereinafter the "Village of Pemberton"), in which Prime Air (BC) agreed to undertake the planning, development, construction, management, and operation of a terminal facility at the Pemberton Airport. In return, the Village of Pemberton granted to Prime Air (BC) an exclusive lease involving certain lands located at the Pemberton Airport (registered under the Land Title Act, KN056037 under Parcel Identification Number 002-606-801, being that part of District Lot 4769, Lillooet District,

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Except Plan KAP 44479) to enable Prime Air (BC) to undertake the planning, development, construction, management, and operation of a terminal facility.

There are no competing facilities at the Pemberton airport. The Lease between the Village of Pemberton and Prime Air Inc., provides Prime Air the exclusive use of the terminal facility and lands to:

(a) operate the terminal facilities as an international airport terminal serving passengers and cargo arriving at and departing from the airport; and

(b) operate, or cause to be operated, from the terminal facilities, such services, concessions, agencies and businesses as it, in its discretion, determines necessary or desirable for the proper and efficient operation of the airline business, including without limitation: (i) ground transportation service to and from the Airport; (ii) motor vehicle rentals; (iii) food and beverage outlets; (iv) souvenir sales; and (v) air and ground transportation ticket sales.

Construction of the air terminal building was completed in 1996. To that extent, the overall size of the building is in excess of 10,000 square feet, with approximately 6,240 square feet presently being fully habitable. The remaining area requires "finishing" with anticipated construction costs to cost approximately \$50/square foot to \$100/square foot depending on requirements. Management intends to defer that cost to tenant improvement until it has signed a lease with tenants who will ultimately occupy the space.

The Company's priority is to establish an air services related activity base, then lease a portion of the terminal facility to related potential tenants. Until there is air service activity at the site, it is unlikely that the undeveloped space would reach its highest and best use.

Once operational, there are three potential sources of revenues; commercial air services, Pemberton airport services and Fixed Base Operations. Commercial air services include the actual operation of charter or scheduled air services to the site. It is anticipated that the Company would contract with an aircraft company to provide these services. However, in order to realize potential revenues from this source, additional amounts must be invested in infra-structure which may be shorthanded depending on the type of aircraft operations. The Company anticipates that it will not initiate commercial air

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services activities until it is satisfied that sufficient capital for this purpose is in place. No assurance can be given that the Company will be able to provide commercial aircraft services. The second source of potential income, Pemberton Airport services, is largely predicated on the existence of air services. This income source would include baggage handling and other passenger related services. Rental of commercial space at the terminal facility also falls into this category. The third source of income is rent derived from Galvin Flying (or alternative experienced FBO) which will perform the Fixed Base Operations (FBO) activities that include providing fuel, logistics, hangar/tie-down rental, accommodation, and other services, to both the commercial and privately operated aircraft. It is Prime Air's intention to assign that function to an established FBO company; in that event Prime Air would earn certain amounts from ancillary activities related to FBO activities.

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Subsequent to year ended December 31, 2001, on September 26, 2003, a Memorandum of Understanding was entered into between Prime Air, Inc., and Galvin Flying Service, Inc., of Seattle Washington in which Galvin intends to provide Fixed Based Operation Services at the Pemberton Airport. Under the Memorandum, the Company will engage Galvin to operate as its exclusive FBO for all aircraft services not related to any proposed transaction with Voyageur Airways. The engagement of Galvin is subject to the Company and Galvin entering into a definitive agreement. No assurance can be given that a definitive agreement will be entered into. Further during the later part of 2003, an aviation excursion trip operator tenant entered into a month to month agreement with Prime Air to use the terminal for Cdn \$500 per month. Management continues to meet with individuals and businesses with respect to developing the prospect of charter or scheduled air service operations. No commitments, to the date, have been received with respect to this item.

Based on its Memorandum of Understanding with Galvin Flying, Prime Air Inc., the Company intends to provide notice to the Village of Pemberton with respect to the exercise of its option to use lands for purposes of future FBO activity. The lands specified are physically detailed within the Lease between the Village of Pemberton and Prime Air Inc. and are appropriately filed in the Land Registry office of the Province of British Columbia.

The term of the lease commenced as of the Effective Date (June 1, 1995) and is set to continue in full force and effect for an initial term ending on the second anniversary of the Terminal Opening Date. Effective October 31, 1996 a further notice was provided to complete the Extension of Term for three years, completed by delivering to Pemberton written notice of extension of the Term prior to the second anniversary of the Terminal Opening Date and a further five years to October 31, 2005 by delivering to Pemberton written notice of extension of the Term. An additional ten years may be exercised by delivering to Pemberton written notice of extension of the Term not less than six months prior to the tenth anniversary of the Terminal Opening Date; and a final additional ten years by delivering to Pemberton written notice of the extension of the Term not less than six months prior to the twentieth anniversary of the Terminal Opening Date. Therefore, provided that the Company is not in default under the lease, it will have the right to use the terminal facility until 2025.

Payment of terminal rent to the Village of Pemberton is described as follows. Prime Air shall pay to Pemberton as a basic rent for the Terminal Lands for each and every year without set-off, deduction or abatement the amount calculated and paid in accordance with the following: (a) the Terminal Rent payable for the first, second, third, fourth, fifth and sixth years shall be the full amount of Cdn\$100; and (b) for each year subsequent to the sixth year, an amount equal to five percent (5%) of the gross receipts for such year, but no

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less than Cdn \$2,500.

The Pemberton Airport is approximately 20 miles north of Whistler Resort on Highway 99. Whistler Resort is a ski resort located at the base of Whistler Mountain and Blackcomb Mountain approximately 75 miles north of Vancouver, British Columbia, Canada. The resort has approximately 8,000 permanent residents and attracts approximately 3,000,000 visitors annually. Currently only ground transportation is available to the resort, except for private flights into Pemberton Airport. The nearest airport facility to Whistler Resort

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is Pemberton Airport. There is presently no regular air service into Pemberton Airport.

The Airport Agreement provided that Prime Air (BC) must construct a terminal facility on or before October 21, 1994, which date was extended to June 1, 1996, by the Council for the Village of Pemberton. Prior to such extended date, Prime Air (BC) completed the terminal facility at the Pemberton Airport. The terminal constructed by Prime Air (BC) has a total square footage of 10,240 square feet, of which approximately 6,240 of interior space has been finished and is ready for its intended use as an airport terminal. The finished portion consists of an arrival and departure lounge, baggage holding area, office, two public washrooms with a total of 14 cubicles, reception area, and a utility room. There is also a water and a waste treatment plant housed in a separate building. The total construction costs of the facility were \$647,126 (\$595,335 for the terminal building, \$20,989 for engineering and design, \$18,699 for environmental work; and \$12,103 for insurance and permits) and were financed through the sale of the Company's stock. During calendar year 1996, the Company sold 1,510,558 shares of its common stock at \$0.50 per share for total proceeds of \$755,279. The limited offering was conducted pursuant to Rule 504 of Regulation D promulgated by the Securities and Exchange Commission. The offering was conducted for the purpose of raising funds for the completion of construction of the airport terminal facility at Pemberton. At the time of such offering the Company was not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, and was not an investment company. The aggregate offering price of all securities sold within the twelve months preceding the start of and during the offering did not exceed \$1,000,000. There is currently no debt against the terminal building. The initial term of the Airport Agreement, and the right of Prime Air (BC) to operate the terminal facility, was two years with provisions allowing Prime Air (BC) to extend such initial term for addition terms totaling in the aggregate thirty years, provided that Prime Air (BC) shall continue to fulfill its obligations under the Airport Agreement, including the payment of rent in the amount of \$100 per year for the first five years, and the payment of property taxes imposed by municipal authorities plus 5% of the gross receipts derived from the operation of the terminal facility for each year thereafter. The Airport Agreement also grants to Prime Air (BC) the option to lease and use certain other lands at the Pemberton Airport for fixed base operations. The Airport Agreement may be terminated by the Village of Pemberton in the event of a material default by Prime Air (BC) or if Prime Air shall become bankrupt. The terminal facilities shall become the property of the Village of Pemberton at the expiration of the Airport Agreement. Prime Air (BC) has submitted a request under the Airport Agreement for a five year extension beginning October 31, 1999. The Airport Agreement provides for two additional ten year extensions of the lease following the five year extension. The Company believes that it is in compliance with the terms of lease.

Proposed Air Service

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Prime Air (BC) initially intends to establish scheduled and charter passenger and cargo air service between Vancouver International Airport and Pemberton Airport by contracting with an aircraft services company. Prime Air (BC) has entered into a Memorandum of Agreement dated January 5, 1995 (the "Voyageur

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Agreement"), with Voyageur Airways Limited, an Ontario corporation ("Voyageur") to provide the initial service by supplying, operating, and maintaining DeHavilland Dash-7 aircraft to provide scheduled and charter passenger and cargo service, from Vancouver International Airport, to the Pemberton Airport. The Voyager Agreement provides that Prime Air (BC) will operate the terminal facility at Pemberton Airport and the scheduled and charter passenger and cargo service, and will market the air services. Voyageur will provide the certifications, authorizations, expertise, facilities, personnel, and resources necessary to operate, maintain and service the aircraft. The Voyageur Agreement expired under its terms. However, Prime Air (BC) and Voyageur are continuing to have discussion with Voyageur to provide aircraft services to Pemberton.

### Government Regulation And Licensing

Any corporation conducting commercial air service operations in Canada must possess a valid operating certificate and other licenses, permits, accreditations and certificates that are issued and administered by Transport Canada. For the purpose of this Report, initially Voyageur is identified as the corporation intended for conduct commercial air service operation in Canada and it is the understanding of Prime Air, Inc. that Voyageur satisfies all of the following criteria. Qualification for the required operating certificate requires that:

1. the operator (being the entity actually providing the air service operations) must have at least one aircraft registered under its operating certificate. This aircraft may either be owned directly or dry leased by the operator;
2. the aircraft utilized by the operator must be approved and certified in Canada;
3. in respect of a domestic Canadian air service, the operator must satisfy the statutory Canadian ownership criteria which essentially requires that 75% of the voting interest in the operator is controlled by Canadian citizens or permanent residents of Canada;
4. the management of the operator must include a chief pilot who holds appropriate Canadian certification;
5. all of the operator's pilots must meet proficiency standards and hold sufficient ratings to operate the type of aircraft being utilized;
6. the operator must demonstrate and certify that it will be able to carry out maintenance of its aircraft according to regulated standards. Such maintenance can either be conducted directly by the operator or subcontracted to a qualified maintenance facility; and
7. an operations manual must be prepared for the operator and approved by Transport Canada.

It will be a condition of any definitive agreement that the aircraft servicing company meets all of the criteria set forth above.



Marketing

Prime Air (BC) intends to conduct a marketing program through a third marketing company as soon as sufficient funds are available. Advertising and promotion would focus both on the Whistler area as the destination, and on creating an image of convenience, quality and reliability for the air service. Final approval of all advertising and promotion would remain with Prime Air (BC). The corporate name and logo would be used throughout the companies advertising materials in order to develop consumer and travel agency familiarity.

Through a marketing company, Prime Air (BC) plans to prepare promotional materials that would introduce the new air service, first to travel agents and tour wholesalers, and then to the consumer. Promotion would constitute a major portion of Prime Air (BC)'s overall marketing strategy. Familiarization flights would be offered to select travel agencies, tour operators, and others, potentially in conjunction with the ski areas, hotels, Whistler's Trade and Convention Center, and the Whistler Resort Association. The objective would be for the industry to become familiar enough with the service so that when a customer books travel to Whistler, the travel agent would suggest that the customer make airline reservations all the way to the Whistler area by using Prime Air (BC)'s services.

Prime Air (BC) also plans to contact travel industry journals to introduce and promote the service.

Prime Air (BC) also plans to focus much of its advertising on accessibility to Whistler. Advertising would include direct mail to the travel industry and specific potential corporate clients, brochures, schedules, and various forms of media advertising, including magazines and newspapers. Whenever possible, Prime Air (BC) would participate in cooperative advertising in order to develop and reinforce the consumer's associating Prime Air (BC) with easy access to Whistler.

Prime Air (BC) intends also to provide hotels at Whistler and the Whistler Resort Association with schedule support materials to generate airline ticket sales in conjunction with hotel bookings.

Prime Air (BC) plans to begin marketing and sales of its services in advance of operating its first flight. The objective would be to generate sales on all flights from the very beginning of flight operations. Prime Air (BC) also plans to focus initially on creating awareness of the service within the travel industry. Specifically, marketing staff would contact tour wholesalers, travel agencies, convention and meeting planners and other groups that currently book clients to Whistler.

A major component of Prime Air (BC)'s sales strategy would include the integration of the flight schedules and fares into all of the major worldwide, computerized reservations systems. Such networks allow travel agencies to book their clients directly through the computerized system. To do this properly, Prime Air (BC) would engage Voyageur management to provide the appropriate expertise in the development of flight schedules and fares, which would include assisting Prime Air (BC) in making the final selection of a computerized reservation system to join.

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In order to generate sales in the local Seattle and Vancouver markets, Prime Air (BC) intends to plan several types of promotional programs. These would likely include ticket packages (purchasing tickets for ten flights for the price of nine), special introductory fares, and/or joint promotions with other advertisers in the area.

Prime Air (BC) intends to maximize the use of the Internet as a tool to reach the consumer with specific marketing and sales related information about the service. As more and more airlines and computerized reservations systems make their flight schedules and fares available on the Internet, management believes the general public will become more adept at using the Internet as a ready source of up-to-date marketing and sales related information about the product. The target market group for this air service would be frequent users of computers and the Internet. Prime Air (BC) intends to seek the services of a marketing firm to exploit this new area of marketing potential.

### Competition

Regarding certain aspects of Prime Air (BC)'s business model, Prime Air (BC) does not have any competition regarding the exclusive lease with the Village of Pemberton through December 31, 2025 concerning the operation of the airport because Prime Air (BC) has the exclusive right conveyed under the terms of the lease.

However, regarding other facets of Prime Air (BC)'s business model, Prime Air (BC) will compete with other charter and airline companies based in the Vancouver and the Seattle area which currently service customers whose final destination is Whistler Resort. However, the other competing airlines still have to conduct operations at the airport and Prime Air (BC) will derive income from other competitors' use of the airport. To a limited degree Prime Air (BC) will compete with buses chartered or owned by tour operators. Most of these entities are more established companies having much greater financial resources, experience, and personnel resources than Prime Air (BC).

### Employees

The Company, including Prime Air BC, had one full-time and two part-time employees as of December 31, 2001. In addition, Messrs. Horsley and Koch spend approximately 1-2% and 10% of their respective time on Prime Air related work as consultants.

### Risk Factors

An investment in the Company involves certain risks. Before investing in the Company's common shares, potential investors should consider the following:

NO SALES REVENUES; UNCERTAIN PROFITABILITY; DEVELOPMENT STAGE COMPANY. Since its inception, the Company has been principally engaged in developmental and organizational activities. To date, the Company has not yet initiated activities which would bring revenues to the air terminal facility and,

consequently, has had no sales revenues. No sales revenues are expected until, and only if, the Company secures adequate funds to complete the infrastructure required to commence either charter or scheduled commercial air service activities.

The Company is in the development stage, and its business is subject to all of

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the risks inherent in the establishment of a new business enterprise. The likelihood of success of the Company must be considered in light of the problems, expenses, complications and delays frequently encountered in connection with the formation of a new business, the development of new products, the competitive and regulatory environment in which the Company is operating and the possibility that its activities will not result in the development of any commercially viable activities. There can be no assurance that the Company's activities will ultimately result in the development of commercial charter or scheduled air service.

NEED FOR FUTURE FINANCING. The Company will be required to raise additional funds through public or private financing including grants that may be available to complete the infrastructure requirements to allow air service operations. There can be no assurance, however, that the Company will be able to obtain additional financing on terms favorable to it, if at all. If adequate funds are not available to satisfy short-term or long-term capital requirements, the failure of the Company to obtain any other acceptable financing would have a material adverse effect on the plans and operations of the Company. Without additional financing, the Company would become unable to maintain its current operations and would be unable to carry out its business plan. The Company has no current understandings or commitments to obtain any additional financing from the sale of its securities or otherwise. Additional financing from the sale of its securities may result in dilution of the Company's then current stockholders.

DEPENDENCE UPON A KEY OFFICER; ATTRACTION AND RETENTION OF KEY PERSONNEL. The business of the Company is highly dependent upon the active participation of its founder and Chief Executive Officer, Blaine Haug. The loss or unavailability to the Company of Mr. Haug would have a material adverse effect on the Company's business prospects and potential earning capacity. The recruitment of skilled airline personnel is critical to the Company's success. There can be no assurance that it will be able to attract and retain such personnel in the future.

The process of obtaining required regulatory approvals required to commence air service operations can be time-consuming and expensive and other regulatory requirements can be burdensome. Moreover, there can be no assurance that the required regulatory clearances will be obtained.

DEPENDENCE ON THIRD PARTY CONTRACTORS. The Company intends to provide commercial air services, fixed based operations, and marketing of its services through third party contractors. Therefore, a substantial part of the Company's business will depend on third parties.

### ITEM 2. DESCRIPTION OF PROPERTY

See Item 1. Description of Business - Airport Lease and Operating Agreement.

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### ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor any of its properties is a party to any material pending legal proceedings or government actions, including any material bankruptcy, receivership, or similar proceedings.

In December 1994 the U.S. Securities and Exchange Commission filed a complaint in the United States District Court for the District of Columbia (Case Number 1:94CV02633) against an entity known as "Astro Enterprises, Inc.," and

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against Ernst Hiestand, Thomas Hiestand, Elizabeth Kuriger, Henry Strubin, Peter Thaler, and Leonard Gotshalk, all of whom were allegedly affiliated with such entity. The basis for such complaint was the dissemination to the public from approximately March 1989 through May 1990, of false and misleading information concerning the business of such entity. The entity referenced in such action was incorporated in the State of Utah on May 23, 1985, and was involuntarily dissolved on May 1, 1990, for failure to file an annual report with the State of Utah. In 1995 Mr. Paul Parshall executed a consent and settlement of the foregoing action, ostensibly as the president, director, and authorized agent of the entity named in such action. Management does not believe such action in any way involved the Utah Corporation which was subsequently incorporated under the same name on August 30, 1993, and which subsequently changed its name to Prime Air, Inc. and changed its domicile to the State of Delaware. Management does not believe there is or was any legal relationship between the "Astro Enterprises, Inc." incorporated on May 23, 1985, and the "Astro Enterprises, Inc." which was incorporated in 1993 and was the predecessor to the Company. In addition, management does not believe that Mr. Parshall was authorized to execute such consent on behalf of either entity. Management is unaware whether Mr. Parshall ostensibly executed such consent on behalf of the original Astro Enterprises, Inc. or the predecessor to the Company by the same name. However, the allegations contained in such action reference events all of which occurred prior to the incorporation of the predecessor to the Company in 1993. Mr. Parshall provided and the company accepted his resignation as a director on February 1, 1996, at which time Mr. Haug became the sole director of the Utah Corporation.

In May 1996 the Company entered into a settlement agreement and undertaking with the Alberta Securities Commission (file number 100164) in which the Company agreed to be more diligent in complying with the requirements of the Alberta Securities Act and the rules made thereunder. In addition, the Company paid \$2,000 to the commission toward the costs of the investigation conducted by the Commission. In February 1996 the Company announced an offering of its common shares in Alberta newspapers. Between February 1 and March 1, 1996, the Company received \$93,040 from fifteen investors in Alberta. The investors received an offering document which did not conform with the form of an offering memorandum required pursuant to the Alberta Securities Act and the distribution to the investors did not qualify for an exemption under such act. Upon being contacted by the staff of the securities commission, the Company placed all investment monies in trust pending the disposition of the matter. Thereafter the Company sent an offering memorandum in the required form and an offer of rescission to all of the investors. After the return of monies to investors who either did not qualify for an exemption or who elected rescission, and the filing of a proper report with the securities commission, no further action was taken by the securities commission.

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### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

No matters were submitted to a vote of the shareholders during the fourth quarter of the year ended December 31, 2002.

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Beginning June 30, 2002, the Company's Common Stock is quoted on the Pink Sheets under the symbol "PMAR". Previously, the Company's common stock was quoted on the OTC Bulletin Board under the symbol "PMAR". The market for the Company's Common Stock is limited, volatile and sporadic. The following table sets forth the OTCBB high and low sales prices relating to the Company's Common Stock for the last two fiscal years. These quotations reflect inter-dealer

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prices without retail mark-up, mark-down, or commissions, and may not reflect actual transactions.

	FISCAL YEARS ENDED			
	DECEMBER 31, 2002		DECEMBER 31, 2001	
	HIGH BID	LOW BID	HIGH BID	LOW BID
First Quarter	\$0.09	\$0.01	\$0.08	\$0.02
Second Quarter	\$0.01	*	\$0.01	*
Third Quarter	\$0.01	*	\$0.01	*
Fourth Quarter	\$0.01	*	*	*
* Less than \$0.01				

As of March 31, 2004, the Company had approximately 352 holders of its common stock.

The Company has never paid cash dividends.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### Executive Summary

The Company's primary operation is the construction and subsequent management and operations of an airport facility located in Pemberton, British Columbia. Through the Company's subsidiary, Prime Air (BC) has entered into a lease and operating agreement with the Village of Pemberton, British Columbia, Canada to plan, develop, construct, manage and operate a terminal facility at the Pemberton Airport.

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Prime Air (BC) has constructed the basic terminal building and proposes to facilitate regular, scheduled air service to Pemberton Airport to serve the nearby resort community of Whistler. Sufficient funding has not been secured to provide for costs for completion of certain infrastructure items including landing lights, airside and groundside related equipment, advance marketing and working capital requirements. Management estimates the requirement for a commitment of approximately \$3,000,000 to provide a satisfactory start up of the British Columbia operation.

During 2002, the Company received no revenues. Historically, the Company has financed its building of terminal and operation through the issuance of equity securities.

The Company intends to market and provide commercial aircraft services to the Pemberton airport to provide access to primarily the Whistler, British Columbia recreational area. To facilitate these services, the Company intends to provide FBO for both commercial and private aircraft services.

#### Results Of Operations

During the year ended December 31, 2002 the Company derived no revenues.

Expenses totaled \$146,207 consisting of primarily \$90,000 for consulting fees, \$18,978 in amortization related to the terminal build at Pemberton and \$9,859 in rent and property taxes paid to the city of Pemberton. Of the \$90,000 in consulting services, \$80,000 was attributed to directors and officers consisting of \$40,000 to the President for his services, \$20,000 in director fees and \$20,000 to an accounting firm controlled by a director for accounting services rendered.

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The Company incurred a loss of \$(146,207), a per share loss of \$(0.01) for the year ended December 31, 2002.

### Liquidity

As of December 31, 2002 and 2001, the Company had a working capital deficit of \$(323,374) and \$(341,507). Included in accounts payable and accrued liabilities of \$213,682 and \$231,305 as at December 31, 2002 and 2001 are a substantial amount of accounts payables and accrued liabilities due to prior year expenses that the Company has yet been able to pay due to the lack of revenues and capital. As a result of the lack of revenues, and working capital deficit, the auditor's report contains a paragraph about the Company's ability to operate as a going concern. Historically, the Company has received loans and issued its shares of common stock to finance its operations, and building of and further expansion of the terminal at Pemberton. It is anticipated that the Company will continue to issue its equity securities and rely on loans from affiliates to finance its operations. However, no assurance can be given that the Company will be able to rely on these sources for capital.

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### ITEM 7. FINANCIAL STATEMENTS

Auditors' Report

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Shareholders' Equity and Deficit

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

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Rutherford & Company  
Chartered Accountants

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9511 Bates Road, Richmond, B.C.  
CANADA V7A 1E3  
Telephone (604)272-5454 Fax (604)272-5874

### AUDITORS' REPORT

To the Shareholders of  
PRIME AIR, INC. (A Nevada Corporation)

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We have audited the consolidated balance sheets of PRIME AIR, INC. (A Development Stage Company) as at December 31, 2002 and 2001 and the consolidated statements of operations, shareholders' equity and deficit 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 have conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations, the change in stockholders' equity and its cash flows for the years then ended in accordance with United States generally accepted accounting principles.

Richmond, Canada  
July 23, 2003

/s/ RUTHERFORD & COMPANY  
CHARTERED ACCOUNTANTS

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RUTHERFORD & COMPANY  
Chartered Accountants

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9511 Bates Road, Richmond, B.C.  
CANADA V7A 1E3  
Telephone (604)272-5454 Fax (604)272-5874

### COMMENTS BY AUDITOR FOR U.S. READERS ON CANADA-U.S. REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the company's ability to continue as a going concern, such as those described in Note 2 to the financial statements. Our report to the shareholders dated July 23, 2003 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

Richmond, Canada  
July 23, 2003

/s/ RUTHERFORD & COMPANY  
CHARTERED ACCOUNTANTS

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PRIME AIR, INC  
(A Development Stage Company)  
CONSOLIDATED BALANCE SHEETS  
(all figures in US dollars)

	December 31 2002	December 31 2001
	-----	-----
ASSETS		
Current Assets		
Cash and short-term deposits . . . . .	\$ 512	\$ 2,089
Prepaid expenses and deposits . . . . .	1,586	1,550
Goods and Services Tax recoverable . . . . .	1,357	1,148
	-----	-----
	3,455	4,787
Capital Assets (Note 4) . . . . .	427,305	441,251
	-----	-----
	\$ 430,760	\$ 446,038
	=====	=====
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities . . . . .	\$ 213,682	\$ 231,305
Due to related parties (Note 6) . . . . .	91,846	111,846
Notes and advances payable (Note 5) . . . . .	21,301	3,143
	-----	-----
	326,829	346,294
	-----	-----
SHAREHOLDERS' EQUITY		
Capital Stock (Note 7)		
Authorized:		
150,000,000 common shares with a		
stated par value of \$.001/share		
5,000,000 preferred cumulative convertible		
shares with a stated par value of \$.001/share		
Issued:		



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23,318,666 common shares (2001: 21,978,666 shares)	23,319	21,979
Capital in excess of par value . . . . .	4,167,192	4,021,532
Accumulated other comprehensive income (loss) . . . . .	(9,721)	(13,115)
Deficit accumulated during development stage . . . . .	(4,076,859)	(3,930,652)
	-----	-----
	103,931	99,744
	-----	-----
	\$ 430,760	\$ 446,038
	=====	=====

See Accompanying Notes To Financial Statements

PRIME AIR, INC.  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(all figures in US dollars)

	Year Ended December 31 2002	Year Ended December 31 2001	From Inception March 10, 1989 to December 31 2002
	-----	-----	-----
			(Unaudited)
Administrative And General Expenses			
Flight operations . . . . .	\$ -	\$ -	\$ 114,720
Audit and accounting . . . . .	7,328	6,781	111,949
Advertising . . . . .	-	666	18,083
Amortization . . . . .	18,978	19,154	143,122
Association membership fees . . . . .	-	5,768	5,768
Automotive . . . . .	-	-	19,164
Bad debts . . . . .	-	-	1,933
Commissions and finders' fees . . . . .	-	3,261	22,311
Consulting . . . . .	10,000	9,000	30,791
Consulting to related parties . . . . .	80,000	60,000	2,719,696
Foreign currency translation loss . . . . .	-	-	60,131
Insurance . . . . .	3,059	2,374	31,934
Interest and service charges . . . . .	1,635	1,289	22,996
Legal costs . . . . .	135	-	182,076
Management remuneration . . . . .	-	-	77,287
Office and general . . . . .	628	1,249	165,637
Repairs and maintenance . . . . .	245	1,420	10,507
Rent and property taxes airport facility . . . . .	9,859	8,426	70,658
Telephone and utilities . . . . .	2,621	4,754	90,661
Transfer agent, listing and filing fees . . . . .	5,309	6,405	62,803
Travel, promotion and entertainment . . . . .	6,410	5,654	114,632
	-----	-----	-----
	146,207	136,201	4,076,859
	-----	-----	-----

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Net Loss For The Period . . . . .	\$	(146,207)	\$	(136,201)	\$	(4,076,859)
		=====		=====		=====
Net Loss Per Common Share . . . . .		(0.01)		(0.01)		
		=====		=====		
Weighted Average Common Shares Outstanding . . . . .		22,898,666		21,586,358		
		=====		=====		

See Accompanying Notes To Financial Statements

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PRIME AIR, INC.  
( A Development Stage Company)  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND DEFICIT  
( all figures in US dollars )

	Common Shares	Shares Amount	Capital in Excess of (Less than) Par Value	Share Subscription Receivable
	-----	-----	-----	-----
Balance at Inception on March 10, 1989 (unaudited). . . .	-	\$ -	\$ -	\$ -
Issue of common shares for cash at \$.001/share. . . . .	1,260,474	1,260	(630)	
Net loss for the year ended March 31, 1990. . . . .	-	-	-	
Balance, March 31, 1990 (unaudited).	1,260,474	1,260	(630)	
	-----	-----	-----	-----
Issue of common shares for cash at \$.001/share. . . . .	315,118	315	(157)	
Net loss for the year ended March 31, 1991. . . . .	-	-	-	
Balance, March 31, 1991 (unaudited).	1,575,592	1,575	(787)	
	-----	-----	-----	-----
Net loss for the year ended March 31, 1992. . . . .	-	-	-	
Balance, March 31, 1992 (unaudited).	1,575,592	1,575	(787)	
	-----	-----	-----	-----
Issue of common shares for cash at \$.13866/share. . . . .	264,176	264	36,367	
at \$.10677/share. . . . .	34,138	34	3,611	
Net loss for the year ended March 31, 1993. . . . .	-	-	-	
Balance, March 31, 1993 (unaudited).	1,873,906	1,873	39,191	
	-----	-----	-----	-----
Issue of common shares for services at \$.07906/share. . . . .	184,346	184	14,390	
Issue of common shares for cash at \$.001/share. . . . .	600,000	600	(300)	
at \$.05449/share. . . . .	6,680	7	357	

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at \$.07707/share. . . . .	47,268	47	3,596
at \$.13966/share. . . . .	38,802	39	5,380
at \$.16508/share. . . . .	46,322	46	7,601
at \$.23111/share. . . . .	174,890	175	40,243
at \$.34663/share. . . . .	31,512	32	10,891
at \$.46217/share. . . . .	15,756	16	7,266
Net loss for the year ended March 31, 1994. . . . .	-	-	-
Balance, March 31, 1994 (unaudited).	3,019,482	\$ 3,019	\$ 128,615

See Accompanying Notes To Financial Statements

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PRIME AIR, INC.  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND DEFICIT  
(all figures in US dollars )

	Common Shares	Shares Amount	Capital in Excess of (Less than) Par Value	Share Subscription Receivable
Balance Forward. . . . .	3,019,482	\$ 3,019	\$ 128,615	\$
Issue of common shares for services at \$.21124/share. . . . .	1,874,956	1,875	394,191	
Issue of common shares for cash at \$.18687/share. . . . .	497,384	498	92,448	
at \$.23117/share. . . . .	608,178	608	139,982	
Net loss for the year ended June 28, 1994 . . . . .	-	-	-	
Balance, June 28, 1994 (unaudited) . .	6,000,000	6,000	755,236	
Share subscription at \$.1835/share . .	-	-	(7,313)	
Net loss for the year ended March 31, 1994. . . . .	-	-	-	
Balance, December 31, 1994 . . . . .	6,000,000	6,000	747,923	
Issue of common shares for cash and/or services at \$.11711/share. .	1,125,100	1,125	130,630	
Net loss for the year ended March 31, 1995. . . . .	-	-	-	
Balance, December 31, 1995 (unaudited)	7,125,100	7,125	878,553	
Issue of common shares for cash at \$.25/share . . . . .	3,021,116	3,021	752,259	
Issue of common shares for services at \$.25/share . . . . .	2,967,346	2,967	738,870	
Net loss for the year ended				

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December 31, 1996 . . . . .	-	-	-
Balance, December 31, 1996 (unaudited)	13,113,562	13,113	2,369,682
Issue of common shares for services at \$.26/share . . . . .	656,000	656	169,904
Issue of common shares for debt settlements:			
at \$.25/share . . . . .	248,504	249	61,876
at \$.25205/share. . . . .	72,760	73	18,266
at \$.26523/share. . . . .	189,600	189	50,098
Net loss for the year ended December 31, 1997 . . . . .	-	-	-
Balance, December 31, 1997 (unaudited)	14,280,426	\$ 14,280	\$ 2,669,826

See Accompanying Notes To Financial Statements

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PRIME AIR, INC.  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND DEFICIT  
(all figures in US dollars )

	Common Shares	Shares Amount	Capital in Excess of Par Value	Share Subscription Receivable
Balance Forward. . . . .	14,280,426	\$ 14,280	\$ 2,669,826	\$
Issue of common shares for debt settlements:				
at \$.19415/share. . . . .	20,000	20	3,853	
at \$.20082/share. . . . .	36,430	37	7,260	
Issue of common shares for services at \$.19790/share. . . . .	3,327,454	3,327	655,177	
Issue of common shares for debt settlements:				
at \$.25/share . . . . .	64,800	65	16,135	
Issue of common shares for services at \$.25/share . . . . .	290,000	290	72,210	
Transfer agent adjustment. . . . .	(6,000)	(6)		
Write off of uncollectable share subscription receivable . . . . .	-	-	7,313	
Net loss for the year ended December 31, 1998 . . . . .	-	-	-	
Balance, December 31, 1998 (unaudited)	18,013,110	18,013	3,431,774	
Issue of common shares for debt settlements:				
at \$.20/share . . . . .	201,250	202	40,048	
at \$.25/share . . . . .	423,200	423	105,377	
Issue of common shares for services at \$.2339/share . . . . .	1,010,000	1,010	235,229	

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Foreign currency translation . . . . .	-	-	-	
Net loss for the year ended				
December 31, 1999 . . . . .	-	-	-	
Balance, December 31, 1999-(unaudited)	19,647,560	19,648	3,812,428	
<hr/>				
Issue of common shares for cash				
at \$.08/share . . . . .	500,000	500	39,500	
Issue of common shares for				
debt settlements:				
at \$.08/share . . . . .	4,100	4	324	
at \$.10/share . . . . .	871,006	871	86,230	
Foreign currency translation . . . . .	-	-	-	
Net loss for the year ended				
December 31, 2000 . . . . .	-	-	-	
<hr/>				
Balance, December 31, 2000 . . . . .	21,022,666	\$ 21,023	\$ 3,938,482	\$
	=====	=====	=====	=====

See Accompanying Notes To Financial Statements

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PRIME AIR, INC.  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND DEFICIT  
(all figures in US dollars )

	Common Shares	Shares	Amount	Capital in Excess of (Less than) Par Value	Share Subscription Receivable
	Shares				
	-----	-----	-----	-----	-----
Balance Forward . . . . .	21,022,666	\$	21,023	\$ 3,938,482	\$
Issue of common shares for cash					
at \$.08/share . . . . .	300,000		300	23,700	
Issue of common shares for					
debt settlement					
at \$.08/share . . . . .	250,000		250	19,750	
at \$.10/share . . . . .	400,000		400	39,600	
Transfer agent adjustment . . . . .	6,000		6		
Foreign currency translation . . . . .	-		-	-	
Net loss for the year ended					
December 31, 2001 . . . . .	-		-	-	
<hr/>					
Balance, December 31, 2001 . . . . .	21,978,666	\$	21,979	\$ 4,021,532	\$
Issue of common shares for cash					
at \$.05/share . . . . .	320,000		320	15,680	
Issue of common shares for					
debt settlement					
at \$.10/share . . . . .	500,000		500	49,500	
at \$.15/share . . . . .	420,000		420	62,580	
at \$.18/share . . . . .	100,000		100	17,900	
Foreign currency translation . . . . .	-		-	-	
Net loss for the year ended					
December 31, 2002 . . . . .	-		-	-	

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Balance, December 31, 2002. . .	23,318,666	\$	23,319	\$	4,167,192	\$
	=====		=====		=====	=====

See Accompanying Notes To Financial Statements

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PRIME AIR, INC.  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(all figures in US dollars)

	*	*	*	*
	Year Ended	Year Ended	December 31	December 31
	2002	2001	-----	-----
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss . . . . .	\$ (146,207)	\$ (136,201)	\$	\$
Adjustments to reconcile net loss to net cash used in operating activities:				
Services paid by issue of common stock . . . . .	-	-		
Amortization . . . . .	18,978	19,154		
(Increase) in prepaid expenses . . . . .	(22)	(172)		
Decrease (increase) in Goods and Services Tax recoverable.	(199)	262		
Increase in due to related parties . . . . .	80,000	20,000		
(Decrease) in accounts payable . . . . .	12,486	72,938		
	-----	-----		
	(34,964)	(24,019)		
FINANCING				
Notes and advances payable . . . . .	18,205	-		
Issue of capital stock . . . . .	16,000	24,000		
	-----	-----		
	34,205	24,000		
INVESTING				
Acquisition of capital assets. . . . .	(953)	-		
	-----	-----		
EFFECT OF EXCHANGE RATE CHANGES. . . . .	135	(497)		
	-----	-----		
NET CASH INFLOW (OUTFLOW). . . . .	(1,577)	(516)		

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CASH, BEGINNING OF PERIOD. . . . .	2,089	2,605	
CASH, END OF PERIOD. . . . .	\$ 512	\$ 2,089	\$
NON-CASH FINANCING ACTIVITIES			
Common stock issued for services . . . . .	-	-	
Common stock issued for debt . . . . .	131,000	60,000	

See Accompanying Notes To Financial Statements

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002 and 2001

1. INCORPORATION, PRINCIPLES OF CONSOLIDATION AND ACCOUNTING PRESENTATION

The Company was incorporated under the laws of the State of Nevada, USA on November 10, 1996, the purpose of which was to change the domicile of the Company from the State of Delaware to the State of Nevada. This change was approved by the shareholders of both corporations on November 26, 1997 and effected through a "plan and agreement of merger" with the surviving corporation being Prime Air, Inc. (Nevada). The articles of merger were filed with the appropriate State authorities on December 15, 1997 which became the effective date of the merger.

The Delaware corporation was incorporated on April 4, 1996 and acquired all of the assets, liabilities and shareholders of a previous Utah corporation of the same name. The Utah corporation had been reincorporated on August 30, 1993 as Astro Enterprises, Inc. and on June 28, 1994, pursuant to appropriate shareholder agreements, acquired all outstanding shares of Prime Air Inc. (a Canadian corporation) in exchange for shares of its capital stock on a .787796 to 1 basis, thereby providing the shareholders of Prime Air Inc. with 90% of the outstanding capital stock of Astro Enterprises, Inc. Astro Enterprises, Inc. then changed its name to Prime Air, Inc. Following incorporation of the Delaware company, the Utah corporation was dissolved on May 15, 1996.

These consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiary, Prime Air Inc. (the Canadian corporation) and have been prepared in accordance with U.S. GAAP standards.

The results of operations and cash flows for the period from the date of inception of this organization as a development stage company on March 10, 1989 to December 31, 2002 are presented herein for information purposes only. These amounts are unaudited and accordingly no audit opinion has been expressed thereon.

2. NATURE OF OPERATIONS / GOING CONCERN CONSIDERATIONS

The Company is presently in its developmental stage and currently has minimal sources of revenue to provide incoming cash flows to sustain future operations. The Company's present activities relate to the construction and ultimate exclusive operation of an international passenger and cargo air terminal facility in the Village of Pemberton, British Columbia and the operation of scheduled flight services between that facility and certain major centers in

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Canada and the United States in conjunction with Voyageur Airways Limited. Terminal building construction was substantially completed in May 1996. The future successful operation of the Company is dependent upon its ability to obtain the financing required to complete and operationalize the terminal facility and to commence operation thereof on an economically viable basis. Management believes the Company will be able to generate sufficient funds to meet its obligations for a period of at least twelve months from the balance sheet date. There is no guarantee that the Company will be able to complete any of the above objectives. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared on a "going concern" basis which assumes the Company will be able to realize its assets, obtain financing as required and discharge its liabilities and commitments in the normal course of business.

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002 and 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Foreign Currency Translation

-----

The Company's functional and reporting currency is the United States dollar. The financial statements of the Company are translated to United States dollars in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52 "Foreign Currency Translation". Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in Canadian dollars. The Company has not, to the date of these financials statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

As the functional currency of the wholly-owned subsidiary is the Canadian dollar, SFAS No. 52 requires the use of the current rate method to translate the subsidiary's financial statements into US dollars. Under the current rate method, all assets and liabilities are translated at the current rate, while stockholders' equity accounts are translated at the appropriate historical rate. The revenues and expenses that occur evenly over the period are translated at the weighted-average rate for the period. The cumulative translation adjustments balance is reported as a component of accumulated other comprehensive income.

#### Fair Value of Financial Instruments

-----

In accordance with the requirements of SFAS No. 107, "Disclosure About Fair Value Of Financial Instruments", the carrying amounts reported on the balance sheets for cash and cash equivalents, namely, "cash and short-term deposits", "prepaid expenses", "goods and services tax recoverable", "accounts payable and accrued liabilities" and "notes and advances payable" approximate their fair market value.

#### Receivables and Prepaid Expenses



-----  
All amounts reported as receivables or prepaid expenses have been recorded at their original values. There have been no amounts written off as bad debts or provided for as an allowance against the recovery of these assets.

Capital Assets  
-----

a) Air Terminal Construction Costs: Expenditures relating directly to the  
-----

construction of the air terminal facility and related engineering and design have been recorded in the accounts of the Company at cost, net of amortization which is provided on a straight-line basis over the 30-year term of the property lease.

b) Furniture and Equipment: Furniture and equipment is stated at cost, net  
-----

of amortization which is provided for at the rate of 20% per annum on the declining balance basis.

c) Computer: Computer equipment is stated at cost, net of amortization which  
-----

is provided for at the rate of 30% per annum on the declining balance basis.

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002 and 2001

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements  
-----

The preparation of financial statements in conformity with generally accepted accounting principals 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 periods. In these financial statements, assets, liabilities and results of operations involve significant reliance on management estimates. Actual results could differ from the use of those estimates.

Income Taxes  
-----

The Company adopted SFAS No. 109, "Accounting For Income Taxes", during the fiscal year ended December 31, 1998 and applied the provisions of that statement on a retroactive basis to the previous fiscal years, which resulted in no significant adjustments. SFAS No. 109, "Accounting for Income Taxes", requires an asset and liability approach for financial accounting and reporting for income tax purposes. This statement recognizes (a) the amount of taxes payable or refundable for the current year and (b) deferred tax liabilities and assets for future tax consequences of events that have been recognized in the financial statements or tax returns. Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not.

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The Company has cumulative net operating losses of approximately \$1,379,000 at December 31, 2002 and \$1,363,000 at December 31, 2001. The operating subsidiary Company has cumulative net operating losses of approximately \$718,000 at December 31, 2002 and \$668,000 at December 31, 2001. Pursuant to SFAS 109 the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefit of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years. The potential income tax benefits of these net operating loss carry forwards of approximately \$591,000 at December 31, 2002 and \$581,000 at December 31, 2001 (based upon current income tax rates) have been offset by valuation reserves of the same amount. Net operating losses in Canada expire after seven (7) years and net operating losses in United States expire after twenty (20) years.

### Other Comprehensive Loss

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SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at December 31, 2002, the Company had accumulated other comprehensive loss of \$9,721, which is comprised of foreign currency translation adjustments.

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002 and 2001

#### 4. CAPITAL ASSETS

Capital assets consist of the following at December 31, 2002 and December 31, 2001:

	December 31, 2002		December 31, 2001	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Air terminal construction costs	555,682	\$130,189	\$425,493	\$ 440,000
Computer equipment . . . . .	944	142	802	-
Furniture and equipment . . . . .	4,557	3,547	1,010	1,251
	561,183	\$133,878	\$427,305	\$ 441,251
	561,183	\$133,878	\$427,305	\$ 441,251

#### 5. NOTES AND ADVANCES PAYABLE

The notes and advances payable are unsecured, non-interest bearing and are without specific terms of repayment.

#### 6. RELATED PARTY TRANSACTIONS

Included in due to related parties is an amount of \$11,846 (2001 - \$11,846)

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which has been advanced to the Company by a shareholders and/or a corporation controlled by that shareholder who is the beneficial owner of 2,245,226 shares of common stock of the Company, that holding representing 10.22% of the issued and outstanding capital of the Company.

During the years ended December 31, 2002 and 2001, no cash remuneration was paid to any director or officer of the Company. The Company records services provided by related parties at their fair value in the period when the services are rendered and the obligation accrued. The Company has adopted the policy of issuing "restricted" common shares to certain directors and officers for services rendered. The Company issues shares in a later period than when the services were performed. The common shares later issued in settlement of these obligations are recorded based on the fair value of the services performed, being the measurement date. Also included in due to related parties is an amount of \$80,000 (2001 - \$100,000), which is the value of services rendered by directors for consulting services provided in the current and prior fiscal years.

During the year ended December 31, 2002, directors of the Company received 800,000 common shares by way of a debt settlement covering obligations of \$100,000. During the year ended December 31, 2001, directors of the Company received 650,000 common shares by way of a debt settlement covering obligations of \$60,000.

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002 and 2001

### 7. CAPITAL STOCK

In July, 1996, management of the Company voluntarily halted trading of its common shares based upon the conclusion that information concerning the history of the Company provided by former management may not have been complete. Adequate information was subsequently provided to the public by management and trading was recommenced on March 27, 1997. The Company prepared and filed a registration statement in connection with the change of domicile (referred to in Note 1) to register all of the outstanding common shares of capital stock in the Company. This registration has been declared effective by the Securities and Exchange Commission and the change of domicile became effective on December 15, 1997.

Shares issued for non-cash consideration were valued based on the fair market value of the common stock on the measurement date for the transaction.

### 8. RENT, PROPERTY TAXES AND LEASE COMMITMENT

The Canadian subsidiary corporation has entered into an Airport Lease and Operating Agreement with The Corporation of The Village of Pemberton in British Columbia whereby it has been granted an exclusive and irrevocable lease over the lands and airport facilities associated with the Pemberton Airport. The term of the Lease and Operating Agreement, including extension options relating thereto, is for a total of 30 years with terminal rent payable as follows:

\$ 67 US (\$100 CDN) per annum for the initial six (6) years (1993 through 1999); and thereafter

5% of gross receipts per annum derived from the operation of the terminal

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facilities, excluding amounts received in connection with the sale of airline tickets and other forms of transportation. The lease commitment amounts for 2003 through 2007 cannot be quantified as the amount of gross receipts for those years cannot be determined and active operation of the terminal facilities has not yet commenced.

No lease payments were made during the years ended December 31, 2002 or 2001 as there were no gross receipts derived from operations in those years. The Company, however, was obligated to pay property taxes imposed by municipal authorities, such levies amounting to \$9,852 for the year ended December 31, 2002 (2001: \$8,426).

The Airport Agreement may be terminated by the Village of Pemberton in the event of a material default by Prime Air (BC) or if Prime Air shall become bankrupt. The terminal facilities shall become the property of the Village of Pemberton at the expiration of the Airport Agreement.

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### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

### ITEM 8A. CONTROLS AND PROCEDURES.

We carried out an evaluation, under the supervision and with the participation of the our management, including our Chief Executive Officer and Chief Financial Officer, about the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Form 10-KSB are effective in timely alerting them to material information required to be included in this Form 10-KSB.

## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTORS AND CONTROL PERSONS

Set forth below is the background of the executive officers and directors for at least the past five years of the Company.

The directors and executive officers of the Company as of December 31, 2001 are as follows:

Name	Age	Position
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Blaine Haug	56	Chief Executive Officer, Chairman
Wayne Koch (1)	53	Treasurer and Director
Nigel Horsley	56	VP Communications
John Eberhard	61	Director
Greg Duffy	49	Director

(1) Mr. Wayne Koch resigned as a director and as an officer effective March 19, 2004.

BLAINE HAUG has served as the Company's Chief Executive Officer and Chairman of the Board since 1997. Mr. Haug is a founding director of the company. Mr. Haug, an Airline Transport Pilot rated (Transport Canada) and Federal Aviation Administration (FAA) equivalent for over twenty years, has flight experience in propeller and jet aircraft and over 7,000 hours of flying time. Background

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includes education in mechanical engineering. From March 1980 through December 1986, Mr. Haug was with Air Alberta, based in Red Deer, Alberta, as General Manager and Chief Pilot, where he directed the turnaround of the company. Prior to this he was self-employed for ten years as an aircraft broker.

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WAYNE KOCH - serves as Treasurer and Director of Prime Air, Inc. For at least the past five years, Mr. Koch has been principal of Koch & Associates, Certified Management Accountants, a public accounting practice (established 1987) serving a large number of individual, small business and non-resident clients. He also provides accounting services to the Company as a consultant. Previous experience includes several years as Controller of a diversified property development company; Managing Director of a Whistler based property management and accommodation company; lecturer at the British Columbia Institute of Technology; Supervisor, Budgets and Program Administration, Airports Branch - Pacific Region, Transport Canada; Systems Design Consultant within the Government of Canada, Department of Supply and Services, Ottawa, Ontario.

R. NIGEL M. HORSLEY - Director. For at least the past five years Mr. Horsley has been involved in investor relations, with an extensive background in print and broadcast media, both in the UK and Canada including IRN in London and CKVU TV as an Executive Producer in Vancouver. He has worked for more than a decade in PR, mostly in high technology, including two years with Hill & Knowlton. Currently, he is also a director of RailPower Technologies Corp. (TSX V: P). He is also a former Vice President with General Hydrogen Corporation.

JOHN EBERHARD, QC - Director. For at least the past five years, Mr. Eberhard has been a practising lawyer, although not on a full-time basis. He is also a former Crown Prosecutor, Judge on the Civil Aviation Tribunal. Mr. Eberhard has also served as Chief Administrative Officer of the Canadian Rotary Committee for International Development (CRCID) since 2000.

GREG DUFFY - Director. Since 1994, Mr. Duffy has served as Comptroller and General Manager of Welcome Ford Sales, Fort Saskatchewan, Alberta, Canada, a Ford car dealership.

### ITEM 10. EXECUTIVE COMPENSATION

The Company, including Prime Air BC, had one employee as of December 31, 2002, consisting of Mr. Haug.

#### SUMMARY COMPENSATION TABLE

	Year	Annual Compensation			Long Term Compensation		
		Salary	Bonus (\$)	Other Annual Compensation (\$)	Awards		LTI Payo (\$)
					Restricted Stock Award(s)	Securities Underlying Options (#)	
Blaine Haug	2002	\$ 0	-0-	-0-	400,000 (1)	-0-	
President .	2001	\$ 0	-0-	-0-	400,000 (1)	-0-	
	2000	\$ 0	-0-	-0-	400,000 (1)	-0-	

(1) Mr. Haug receives 400,000 shares of the Company common stock for his

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services. In addition he is reimbursed for expenses he incurs in the course of performing his duties for the Company. Mr. Haug currently has no employment agreement.

OPTION GRANTS IN 2001

The Company made no stock option grants during calendar year, 2001

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND TEN-YEAR OPTIONS/SAR REPRICINGS

There was no repricing of options for the fiscal year ended December 31, 2001.

FISCAL YEAR END OPTION VALUES

No executive officer had any options outstanding at the end of the year.

DIRECTOR FEES

During the year ended December 31, 2002, Messrs. Haug, Koch, Eberhard, and Horsley each earned \$5,000 for director services as determined by the Board. These fees were paid through the issuance of common shares at a value of \$.05 per share in 2003.

COMPENSATION PLAN TABLE

No compensation plan table has been provided since the Company has never issued options for compensation.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock of the Company as of December 31, 2002 to (i) each person who is known by the Company to own beneficially more than five percent (5%) of the outstanding shares of its Common Stock, (ii) each director of the Company, (iii) each of the Named Executive Officers and (iv) all directors and executive officers as a group. This table is based on information provided to us or filed with the Securities and Exchange Commission by the Company's directors, executive officers and principal shareholders. Except as otherwise indicated, the Company believes that the beneficial owners of the shares listed below have sole investment and voting power with respect to such shares, subject to community property laws. The Company does not know of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change of control of the Company.

Five Percent Shareholders, Directors and certain Executive Officers	Common Stock Beneficially Owned	Percentage Owned
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Blaine Haug . . . . .	2,645,226	11.34%
Wayne Koch. . . . .	1,256,230	5.39%
Nigel Horsley . . . . .	100,000	.43%
John Eberhard . . . . .	395,340	1.7%
Greg Duffy. . . . .	94,720	0.041%
All directors and current executive . officers as a group (5 persons)	4,491,516	19.26%

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the years ended December 31, 2002 and 2001, certain officers and directors received common stock for their services or consulting services. In addition, an entity that may be deemed an affiliate of an officer and director of the Company has lent funds to the Company for its operations. However, the amount in value for each transaction did not exceed \$60,000.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Index to Exhibits.

The following is a list of all exhibits filed as part of this Report:

Exhibit Number	Name
3.1	Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-4 filed with the Commission on June 2, 1997)
3.2	Bylaws (Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-4 filed with the Commission on June 2, 1997)
10.1	Airport Lease and Operating Agreement (Incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-4 filed with the Commission on June 2, 1997)
10.2	Employment Agreement with Blaine Haug (Incorporated by reference to Exhibit 10.2 to Registration Statement on Form S-4 filed with the Commission on June 2, 1997)
10.3	Memorandum Agreement with Voyager Airways (Incorporated by reference to Exhibit 10.5 to pre-effective Amendment No. 2 to Registration Statement on Form S-4 filed with the Commission on September 26, 1997)

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10.4	Addendum to Haug Employment Agreement (Incorporated by reference to Exhibit 10.6 to pre-effective amendment no. 1 to Registration Statement on Form S-4 filed with the Commission on August 6, 1997)
31.1	CEO and CFO certifications under Section 302 of Sarbanes-Oxley Act
32.1	CEO and CFO Certifications under Section 906 of Sarbanes-Oxley Act

(b) Reports on Form 8-K.

None

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### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Chartered Accountants served as the Company's independent accountants for the fiscal year ended December 31, 2002, and during the course of that fiscal year they were not engaged by the Company to provide certain non-audit services. During the year ended December 31, 2002 and 2001, the following fees were paid for services provided by Chartered Accountants.

**Audit Fees.** The aggregate fees paid for the annual audit of financial statements included in the Company's Form 10-KSB for the years ended December 31, 2002 and 2001 and the review of the Company's quarterly reports for such years, amounted to approximately \$7,323 and \$4,200 respectively.

**Audit Related Fees.** For the years ended December 31, 2002 and 2001, the Company paid no fees to Chartered Accountants related to other audit related fees.

**Tax Fees.** For the years ended December 31, 2002 and 2001, the Company paid no fees to Chartered Accountants related to tax fees.

**All Other Fees.** For the years ended December 31, 2002 and 2001, the Company did not pay Chartered Accountants for any non-audit services.

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### SIGNATURE

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

Prime Air, Inc.

April 30, 2004 By: /s/ Blaine Haug

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Blaine Haug  
Chairman of the Board and Chief Executive Officer  
(Principal Executive and Principal Financial and  
Accounting Officer)

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