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PRIME AIR INC  
Form 10KSB  
June 21, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-KSB

(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, 2003

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   | Not Applicable                    |
|--|-----------------------------------|
| -----<br>State or other jurisdiction of<br>incorporation or organization | -----<br>I.R.S. Employer I.D. No. |
| Suite 601 - 938 Howe Street, Vancouver, British Columbia,                | V6Z 1N9                           |
| -----<br>(Address of principal executive offices)                        | -----<br>(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: \$2,364

Documents Incorporated by Reference: None

State the number of shares outstanding of each of the Issuer's classes of common equity as of the latest practicable date: At December 31, 2003, there were 27,084,000 shares of the Registrant's Common Stock outstanding.

The aggregate market value of the voting common stock held by non-affiliates based on the closing price for a share of common stock as of January 20, 2004 of \$0.25 was \$5,341,348.

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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

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### 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. It also 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 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 spit 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. Mr. Parshall is no longer associated with

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the Company. 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 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, believed 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.

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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 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, and the Plan has subsequently been terminated.

Commencing June 1998, the Company attempted to offer and sell up to 8,000,000 shares of common stock. 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,

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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 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

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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. The Company anticipates that it will not initiate commercial air 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 may be rental income 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 resulting in Prime Air earning certain amounts from ancillary activities related to FBO activities.

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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, 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

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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 not less than Cdn \$2,500.

The Pemberton Airport is approximately 20 miles north of Whistler Resort. 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 is Pemberton Airport. There is presently no regular air service into Pemberton Airport.

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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

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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

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 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

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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 Annual 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



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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 party marketing company as soon as sufficient funds are available. Advertising and promotion would focus both on the Whistler area as the destination, and on

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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

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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.

In order to generate sales in the local Seattle and Vancouver markets, Prime Air (BC) intends to plan several types of promotional programs. These

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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 employee as of December 31, 2003. In addition, Messrs. Horsley and Koch spend approximately 1-2% and 10% of their respective time on Prime Air related work as consultants during 2003.

### RISK FACTORS

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

LIMITED RENTAL 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 limited rental revenue. No substantial revenues are expected until, and only if, the Company secures adequate funds to complete the infrastructure required to commence either

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charter or scheduled commercial air service activities.

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

### 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.

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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, 2003.

PART II

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

|                | FISCAL YEARS ENDED |        |                   |        |
|----------------|--------------------|--------|-------------------|--------|
|                | DECEMBER 31, 2003  |        | DECEMBER 31, 2002 |        |
|                | HIGH               | LOW    | HIGH              | LOW    |
| First Quarter. | (1)                | (1)    | \$0.09            | \$0.01 |
| Second Quarter | (1)                | (1)    | \$0.01            | *      |
| Third Quarter. | \$0.25             | \$0.01 | \$0.01            | *      |
| Fourth Quarter | \$0.27             | \$0.03 | \$0.01            | *      |

\* Less than \$0.01

(1) No trades during the quarter.

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

The Company has never paid cash dividends.

Recent Sales of Unregistered Securities.

During the past year ended December 31, 2003, the Company sold unregistered common stock in the following transactions.

1. On May 8, 2003, the Company issued 400,000 shares of common stock in the aggregate at a value of \$0.05 per share to Messrs. Haug, Koch, Horsley and Eberhard for 2002 director fees. Each director received 100,000 shares. The Company relied on section 4(2) as an exemption from registration.

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2. On May 8, 2003, the Company issued 400,000 shares of common stock in the aggregate at a value of \$0.05 per share to Mr. Koch, a then director of the Company, for accounting services provided to the Company in 2002. The Company relied on section 4(2) as an exemption from registration.

3. On May 8, 2003, the Company issued 400,000 shares of common stock in the aggregate at a value of \$0.10 per share to Mr. Haug for his services as president for 2002. The Company relied on section 4(2) as an exemption from registration.

4. On September 10, 2003, the Company sold 1,000,000 shares of common stock to one corporate investor at \$0.05 per share raising in the aggregate \$50,000. No underwriter or placement agent was involved. The Company relied on section 4(2) as an exemption from registration.

5. On October 9, 2003, the Company issued 400,000 shares of common stock in the aggregate at a value of \$0.05 per share to Messrs. Haug, Koch, Horsley and Eberhard for 2003 director fees. Each director received 100,000 shares. The Company relied on section 4(2) as an exemption from registration.

6. On October 9, 2003, the Company issued 185,000 shares of common stock in the aggregate at a value of \$0.05 per share to three persons for aviation consulting services in 2003. Each consultant was familiar with the Company and the Company relied on section 4(2) as an exemption from registration.

7. On October 9, 2003, the Company issued 400,334 shares of common stock in the aggregate at a value of \$0.05 per share to Mr. Koch, a then director of the Company, for accounting services provided to the Company in 2003. The Company and the Company relied on section 4(2) as an exemption from registration.

8. On October 9, 2003, the Company issued 400,000 shares of common stock in the aggregate at a value of \$0.05 per share to Mr. Haug for his services as president for 2003. The Company relied on section 4(2) as an exemption from registration.

9. On October 9, 2003, the Company issued 150,000 shares of common stock at a value of \$0.1667 per share to its former attorneys in settlement of an outstanding debt. The Company relied on section 4(2) as an exemption from registration.

10. On October 9, 2003, the Company sold 30,000 shares of common stock to one investor at \$0.1667 per share raising in the aggregate \$5,000. No underwriter or placement agent was involved. The Company relied on section 4(2) as an exemption from registration.

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### 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 principal operations of the Pemberton terminal facility.

During 2003, the Company received limited rental 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, 2003 the Company derived limited revenues of \$2,364 derived from the leasing of terminal space.

Expenses totaled \$156,752 consisting of primarily \$88,943 for consulting fees, \$21,411 in amortization related to the terminal building at Pemberton and \$35,696 in administrative expenses. Of the \$88,943 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. Also during the year 2003, the Company settled outstanding trade accounts payable which resulted in a gain of \$99,814. Expenses for 2002 were similar, aggregating in the amount of \$146,207.

The Company incurred a loss from operations of \$154,388 and \$146,207, respectively, for the years ended December 31, 2003 and 2002, and a net loss for the year ended December 31, 2003 and 2002 of \$54,574 and \$146,207. Net loss per share was \$(0.00) and \$(0.01) for the years ended December 31, 2003 and 2002.

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### LIQUIDITY

As of December 31, 2003 and 2002, the Company had a working capital deficit of \$(141,227) and \$(323,374). Included in accounts payable of \$213,682 as at December 31, 2002 is a substantial amount of accounts payable from prior years that the Company has not been able to pay due to the lack of revenues and capital. During the year ended December 31, 2003, the Company settled outstanding trade accounts payables owing from prior years which resulted in a reduction in accounts payables and accrued liabilities. In addition, the Company reduced its amounts due to related parties through the issuance of shares. As a result of the lack of significant revenues, and working capital deficit, the auditor's report indicates there is substantial doubt 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 related parties 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

Prime Air, Inc.  
(A Development Stage Company)

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[LETTERHEAD OF MANNING ELLIOT CHARTERED ACCOUNTANTS]

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of  
Prime Air, Inc. (A Development Stage Company)

We have audited the accompanying consolidated balance sheet of Prime Air, Inc. (A Development Stage Company) as of December 31, 2003 and the related statement of operations, comprehensive income, stockholders' equity and cash flows for the year 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 audit. Other independent auditors audited the accompanying consolidated balance sheet of Prime Air, Inc. as of December 31, 2002 and the related statement of operations, stockholders' deficit and cash flows for the year then ended. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated July 23, 2003.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the financial position of Prime Air, Inc., as of December 31, 2003, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted

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in the United States.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred operating losses since inception and has a working capital deficiency. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MANNING ELLIOT  
CHARTERED ACCOUNTANTS  
Vancouver, Canada  
June 10, 2004

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[LETTERHEAD OF RUTHERFORD & COMPANY CHARTERED ACCOUNTANTS]

Rutherford & Company  
Chartered Accountants

-----  
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)

We have audited the consolidated balance sheets of PRIME AIR, INC. (A Development Stage Company) as at December 31, 2002 and the consolidated statements of operations, shareholders' equity and deficit and cash flows for the year 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 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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[LETTERHEAD OF RUTHERFORD & COMPANY CHARTERED ACCOUNTANTS]

RUTHERFORD & COMPANY  
Chartered Accountants

-----  
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 1 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  
(Expressed in US dollars)

|   |       |
|---|-------|
|   | Decem |
|   | 2     |
|   | ----- |
| ASSETS                                    |       |
| Current Assets                            |       |
| Cash . . . . .                            | \$    |
| Prepaid expenses and deposits. . . . .    |       |
| Other receivables. . . . .                |       |
|   | ----- |
| Total Current Assets. . . . .             |       |
| Property and Equipment (Note 3) . . . . . |       |
|   | ----- |
| Total Assets. . . . .                     | \$    |
|   | ===== |

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LIABILITIES

Current Liabilities

|  |    |
|--|----|
| Accounts payable . . . . .                   | \$ |
| Accrued liabilities. . . . .                 |    |
| Due to related parties (Note 5). . . . .     |    |
| Notes and advances payable (Note 4). . . . . |    |
| Total Liabilities . . . . .                  |    |

Contingencies and Commitments (Notes 1 and 7)

STOCKHOLDERS' EQUITY

|   |             |
|---|-------------|
| Preferred Stock, 5,000,000 cumulative and convertible preferred shares authorized with a par value of \$0.001, none issued. . . . .                     |             |
| Common Stock, 150,000,000 common shares authorized with a par value of \$0.001, 27,084,000 and 23,318,666 issued and outstanding, respectively. . . . . |             |
| Additional Paid In Capital. . . . .   | 4,          |
| Accumulated other comprehensive income (loss) . . . . .   |             |
| Deficit accumulated during the development stage. . . . .   | (4,         |
| Total Stockholders' Equity. . . . .   | -----       |
| Total Liabilities and Stockholders' Equity. . . . .   | \$<br>===== |

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

|                             | Year Ended<br>December 31,<br>2003 | Year Ended<br>December 31,<br>2002 | Accumulated Fr<br>March 10, 198<br>(Date of Incept<br>December 31,<br>2003 |
|-----------------------------|------------------------------------|------------------------------------|--|
|                             | -----                              | -----                              | -----  |
| Revenue                     |                                    |                                    | (Unaudited)  |
| Rental income . . . . .     | \$ 2,364                           | \$ -                               | \$   |
| Expenses                    |                                    |                                    |  |
| Flight operations . . . . . | -                                  | -                                  | 11   |

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|  |             |              |          |
|--|-------------|--------------|----------|
| Advertising and Promotion . . . . .            | 67          | -            | 4        |
| Amortization. . . . .                          | 21,411      | 18,978       | 16       |
| Consulting. . . . .                            | 8,943       | 10,000       | 3        |
| Consulting to related parties (Note 5(b)) . .  | 80,000      | 80,000       | 2,79     |
| General and Administrative. . . . .            | 35,696      | 29,766       | 76       |
| Professional fees . . . . .                    | 10,635      | 7,463        | 30       |
|  | -----       | -----        | -----    |
|  | 156,752     | 146,207      | 4,23     |
|  | -----       | -----        | -----    |
| Loss from Operations . . . . .                 | (154,388)   | (146,207)    | (4,23    |
| Gain on settlement of debt . . . . .           | 99,814      | -            | 9        |
|  | -----       | -----        | -----    |
| Net Loss For the Period. . . . .               | \$ (54,574) | \$ (146,207) | \$ (4,13 |
|  | =====       | =====        | =====    |
| Net Loss Per Common Share - Basic and Diluted. | \$ (0.00)   | \$ (0.01)    |          |
|  | =====       | =====        |          |
| Weighted Average Shares Outstanding. . . . .   | 24,957,000  | 22,899,000   |          |
|  | =====       | =====        |          |

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PRIME AIR, INC.  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Expressed in US dollars)

|   | Year Ended<br>December 31<br>2003 | Year Ended<br>December 31<br>2002 | From March 10,<br>1989 (date of<br>inception) to<br>December 31<br>2003<br>(Unaudited) |
|---|-----------------------------------|-----------------------------------|--|
|   | -----                             | -----                             | -----  |
| Net loss                                | \$ (54,574)                       | \$ (146,207)                      | \$ (4,131,433)   |
| Other comprehensive income:             |                                   |                                   |  |
| Foreign currency translation adjustment | 68,307                            | 3,394                             | 58,586   |
|   | -----                             | -----                             | -----  |
| Comprehensive income (loss):            | \$ 13,733                         | \$ (142,813)                      | \$ (4,072,847)   |
|   | =====                             | =====                             | =====  |

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PRIME AIR, INC.  
(A Development Stage Company)  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
From March 10, 1989 (Date of Inception) to December 31, 2003  
(Expressed in US dollars)

|  | Common Shares<br>Shares | Additional<br>Amount<br>\$ | Share<br>Paid In<br>Capital<br>\$ | Deficit<br>Accumulated<br>Other<br>Subscriptions<br>Receivable<br>\$ | Accumul<br>During<br>Comprehe<br>Income (\$<br>\$ |
|--|-------------------------|----------------------------|-----------------------------------|--|---|
| Balance at Inception on<br>March 10, 1989<br>(unaudited) . . . . .   | -                       | -                          | -                                 | -  |   |
| Issue of common shares<br>for cash<br>at \$.001/share. . . . .       | 1,260,474               | 1,260                      | (630)                             | -  |   |
| Net loss for the year<br>ended March 31, 1990. . . . .               | -                       | -                          | -                                 | -  |   |
| <hr/>  |                         |                            |                                   |  |   |
| Balance, March 31, 1990<br>(unaudited) . . . . .                     | 1,260,474               | 1,260                      | (630)                             | -  |   |
| Issue of common shares<br>for cash<br>at \$.001/share. . . . .       | 315,118                 | 315                        | (157)                             | -  |   |
| Net loss for the year<br>ended March 31, 1991. . . . .               | -                       | -                          | -                                 | -  |   |
| <hr/>  |                         |                            |                                   |  |   |
| Balance, March 31, 1991<br>(unaudited) . . . . .                     | 1,575,592               | 1,575                      | (787)                             | -  |   |
| Net loss for the year<br>ended March 31, 1992. . . . .               | -                       | -                          | -                                 | -  |   |
| <hr/>  |                         |                            |                                   |  |   |
| Balance, March 31, 1992<br>(unaudited) . . . . .                     | 1,575,592               | 1,575                      | (787)                             | -  |   |
| Issue of common shares<br>for cash<br>at \$.13866/share . . . . .    | 264,176                 | 264                        | 36,367                            | -  |   |
| at \$.10677/share . . . . .  | 34,138                  | 34                         | 3,611                             | -  |   |
| Net loss for the year<br>ended March 31, 1993. . . . .               | -                       | -                          | -                                 | -  |   |
| <hr/>  |                         |                            |                                   |  |   |
| Balance, March 31, 1993<br>(unaudited) . . . . .                     | 1,873,906               | 1,873                      | 39,191                            | -  |   |
| Issue of common shares<br>for services<br>at \$.07906/share. . . . . | 184,346                 | 184                        | 14,390                            | -  |   |
| Issue of common shares<br>for cash<br>at \$.001/share . . . . .      | 600,000                 | 600                        | (300)                             | -  |   |
| at \$.05449/share . . . . .  | 6,680                   | 7                          | 357                               | -  |   |
| 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                             | -  |   |

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|  |           |       |         |   |   |
|--|-----------|-------|---------|---|---|
| Net loss for the year ended March 31, 1994. . . . .            | -         | -     | -       | - | - |
| Balance, March 31, 1994 (unaudited) . . . . .                  | 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 | - | - |

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|  | Common Shares | Additional Amount | Share Paid In Capital | Deficit Accumulated Other Subscriptions Receivable | Accumulated During Comprehensive Income |
|--|---------------|-------------------|-----------------------|--|---|
|  | Shares        | \$                | \$                    | \$   | \$                                      |
| Balance Forward. . . . .   | 6,000,000     | 6,000             | 755,236               | -  | -                                       |
| Share subscription at \$.1835/share . . . . .                              | -             | -                 | (7,313)               | (20)   | -                                       |
| Net loss for the year ended March 31, 1994. . . . .                        | -             | -                 | -                     | -  | -                                       |
| Balance, December 31, 1994 (unaudited) . . . . .                           | 6,000,000     | 6,000             | 747,923               | (20)   | -                                       |
| 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               | (20)   | (81)                                    |
| 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 December 31, 1996 . . . . .                    | -             | -                 | -                     | -  | -                                       |
| Balance, December 31, 1996   |               |                   |                       |  |   |

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|  |            |        |           |      |
|--|------------|--------|-----------|------|
| (unaudited) . . . . .  | 13,113,562 | 13,113 | 2,369,682 | (20) |
| Issue of common shares<br>for services<br>at \$.26/share . . . . .             | 656,000    | 656    | 169,904   | -    |
| Issue of common shares<br>for debt settlements:<br>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<br>ended<br>December 31, 1997 . . .                      | -          | -      | -         | -    |
| <hr/>  |            |        |           |      |
| Balance,<br>December 31, 1997<br>(unaudited) . . . . .                         | 14,280,426 | 14,280 | 2,669,826 | (20) |
| Issue of common shares<br>for debt settlements:<br>at \$.19415/share . . . . . | 20,000     | 20     | 3,853     | -    |
| at \$.20082/share . . . . .  | 36,430     | 37     | 7,260     | -    |
| Issue of common shares<br>for services<br>at \$.19790/share. . . . .           | 3,327,454  | 3,327  | 655,177   | -    |
| Issue of common shares<br>for debt settlements<br>at \$.25/share . . . . .     | 64,800     | 65     | 16,135    | -    |
| Issue of common shares<br>for services<br>at \$.25/share . . . . .             | 290,000    | 290    | 72,210    | -    |
| Transfer agent adjustment.   | (6,000)    | (6)    | -         | -    |
| Write off of<br>uncollectable share<br>subscription<br>receivable. . . . .     | -          | -      | 7,313     | 20   |
| Net loss for the year<br>ended<br>December 31, 1998 . . .                      | -          | -      | -         | -    |
| <hr/>  |            |        |           |      |
| Balance,<br>December 31, 1998<br>(unaudited) . . . . .                         | 18,013,110 | 18,013 | 3,431,774 | -    |

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|  | Common Shares | Additional<br>Amount<br>\$ | Share<br>Paid In<br>Capital<br>\$ | Deficit<br>Accumulated<br>Other<br>Subscriptions<br>Receivable<br>\$ | Accumul<br>During<br>Comprehe<br>Income (\$<br>\$ |
|--|---------------|----------------------------|-----------------------------------|--|---|
| Balance Forward. . . . .   | 18,013,110    | 18,013                     | 3,431,774                         | -  |   |
| Issue of common shares<br>for debt settlements:<br>At \$.20/share. . . . . | 201,250       | 202                        | 40,048                            | -  |   |
| At \$.25/share. . . . .  | 423,200       | 423                        | 105,377                           | -  |   |
| Issue of common shares   |               |                            |                                   |  |   |

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|   |            |        |           |   |     |
|---|------------|--------|-----------|---|-----|
| for services<br>at \$.2339/share . . . . .                                | 1,010,000  | 1,010  | 235,229   | - |     |
| Foreign currency<br>translation . . . . .                                 | -          | -      | -         | - | 2   |
| Net loss for the year<br>ended<br>December 31, 1999 . . . . .             | -          | -      | -         | - |     |
| -----   |            |        |           |   |     |
| Balance,<br>December 31, 1999<br>(unaudited) . . . . .                    | 19,647,560 | 19,648 | 3,812,428 | - | 2   |
| Issue of common shares<br>for cash at \$.08/share.                        | 500,000    | 500    | 39,500    | - |     |
| Issue of common shares<br>for debt settlements<br>at \$.08/share. . . . . | 4,100      | 4      | 324       | - |     |
| at \$.10/share. . . . .   | 871,006    | 871    | 86,230    | - |     |
| Foreign currency<br>Translation . . . . .                                 | -          | -      | -         | - | (1) |
| Net loss for the year<br>ended<br>December 31, 2000 . . . . .             | -          | -      | -         | - |     |
| -----   |            |        |           |   |     |
| Balance,<br>December 31, 2000 . . . . .                                   | 21,022,666 | 21,023 | 3,938,482 | - |     |
| Issue of common shares<br>for cash at \$.08/share.                        | 300,000    | 300    | 23,700    | - |     |
| Issue of common shares<br>for debt settlement<br>at \$.08/share. . . . .  | 250,000    | 250    | 19,750    | - |     |
| at \$.10/share. . . . .   | 400,000    | 400    | 39,600    | - |     |
| Transfer agent<br>Adjustment. . . . .                                     | 6,000      | 6      | -         | - |     |
| Foreign currency<br>translation . . . . .                                 | -          | -      | -         | - | (2) |
| Net loss for the year<br>ended<br>December 31, 2001 . . . . .             | -          | -      | -         | - |     |
| -----   |            |        |           |   |     |
| Balance,<br>December 31, 2001 . . . . .                                   | 21,978,666 | 21,979 | 4,021,532 | - | (1) |
| Issue of common shares<br>For cash<br>at \$.05/share . . . . .            | 320,000    | 320    | 15,680    | - |     |
| Issue of common shares<br>for debt settlement<br>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<br>translation . . . . .                                 | -          | -      | -         | - |     |
| Net loss for the year<br>ended<br>December 31, 2002 . . . . .             | -          | -      | -         | - |     |
| -----   |            |        |           |   |     |
| Balance,<br>December 31, 2002 . . . . .                                   | 23,318,666 | 23,319 | 4,167,192 | - | (   |

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|   | Common Shares<br>Shares | Additional<br>Amount<br>\$ | Share<br>Paid In<br>Capital<br>\$ | Deficit<br>Accumulated<br>Other<br>Subscriptions<br>Receivable<br>\$ | Accumul<br>During<br>Comprehe<br>Income ( )<br>\$ |
|---|-------------------------|----------------------------|-----------------------------------|--|---|
| Balance Forward. . . . .                                  | 23,318,666              | 23,319                     | 4,167,192                         | -  | (   |
| Issue of common shares<br>for cash                        |                         |                            |                                   |  |   |
| at \$.05/share. . . . .                                   | 1,000,000               | 1,000                      | 49,000                            | -  |   |
| at \$.1667/share. . . . .                                 | 30,000                  | 30                         | 4,970                             | -  |   |
| Issue of common shares<br>for debt settlement             |                         |                            |                                   |  |   |
| at \$.05/share. . . . .                                   | 1,785,334               | 1,785                      | 87,482                            | -  |   |
| at \$.10/share. . . . .                                   | 800,000                 | 800                        | 79,200                            | -  |   |
| at \$.1667/share. . . . .                                 | 150,000                 | 150                        | 24,850                            | -  |   |
| Foreign currency<br>translation . . . . .                 | -                       | -                          | -                                 | -  | 6   |
| Net loss for the year<br>ended<br>December 31, 2003 . . . | -                       | -                          | -                                 | -  |   |
| Balance,<br>December 31, 2003 . . .                       | 27,084,000              | 27,084                     | 4,412,694                         | -  | 5   |

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

|  | Year Ended<br>December 31,<br>2003 | Year Ended<br>December 31,<br>2002 |
|--|------------------------------------|------------------------------------|
| CASH FLOWS TO OPERATING ACTIVITIES   |                                    |                                    |
| Net loss for the period . . . . .  | \$ (54,574)                        | \$ (146,207)                       |
| Adjustments to reconcile net loss to net cash used in operating<br>activities: |                                    |                                    |
| Expenses settled with issuance of debt. . . . .                                | 89,267                             | 90,000                             |
| Services paid by issue of common stock. . . . .                                | -                                  | -                                  |
| Amortization. . . . .  | 21,411                             | 18,978                             |
| Gain on settlement of debt. . . . .  | (99,814)                           | -                                  |
| Changes in operating assets and liabilities:                                   |                                    |                                    |



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|  |            |            |
|--|------------|------------|
| (Increase) in other receivables . . . . .                                | (206)      | -          |
| (Increase) in prepaid expenses. . . . .                                  | (2,657)    | (221)      |
| Increase in due to related parties. . . . .                              | 10,471     | -          |
| (Decrease) increase in accounts payable and accrued liabilities. . . . . | (5,823)    | 2,486      |
|  | -----      | -----      |
| Net Cash Used by Operating Activities . . . . .                          | (41,925)   | (34,964)   |
|  | -----      | -----      |
| CASH FLOWS TO INVESTING ACTIVITIES                                       |            |            |
| Purchase of property and equipment. . . . .                              | (10,123)   | (953)      |
|  | -----      | -----      |
| CASH FLOWS FROM FINANCING ACTIVITIES                                     |            |            |
| Proceeds from notes and advances payable. . . . .                        | 1,433      | 18,205     |
| Proceeds from issuance of common shares . . . . .                        | 55,000     | 16,000     |
|  | -----      | -----      |
| Net Cash Provided by Financing Activities . . . . .                      | 56,433     | 34,205     |
|  | -----      | -----      |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH . . . . .                        | (2,206)    | 135        |
|  | -----      | -----      |
| INCREASE (DECREASE) IN CASH . . . . .                                    | 2,179      | (1,577)    |
| CASH, BEGINNING OF PERIOD . . . . .                                      | 512        | 2,089      |
|  | -----      | -----      |
| CASH, END OF PERIOD . . . . .  | \$ 2,691   | \$ 512     |
|  | =====      | =====      |
| NON-CASH FINANCING AND INVESTING ACTIVITIES                              |            |            |
| Common stock issued for services. . . . .                                | \$ -       | \$ -       |
| Common stock issued for debt. . . . .                                    | \$ 194,267 | \$ 131,000 |
| Expenses settled with issuance of debt. . . . .                          | \$ 89,267  | \$ 90,000  |
| SUPPLEMENTAL DISCLOSURES   |            |            |
| Interest paid . . . . .  | \$ -       | \$ -       |
| Income taxes paid . . . . .  | \$ -       | \$ -       |

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Development Stage Company

The Company was incorporated under the laws of the State of Nevada on November 10, 1996, for the purpose of changing 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.

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(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, 1995, for the purpose of changing the domicile of the Company from the State of Utah to the State of Delaware by acquiring all of the assets and liabilities of the Utah Corporation, and 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 Utah Corporation was incorporated on August 30, 1993 as Astro Enterprises, Inc. ("Astro"). On June 28, 1994, pursuant to appropriate shareholder agreements, the Utah Corporation acquired all outstanding shares of Prime Air (BC) Inc., a private Canadian corporation ("the Canadian Corporation") in exchange for shares of its capital stock on a .787796 to 1 basis, thereby providing the shareholders of the Canadian Corporation with 90% of the outstanding common shares of Astro. The acquisition was a capital transaction in substance and therefore was accounted for as a recapitalization of Astro. The Canadian Corporation was incorporated on March 10, 1989. Astro then changed its name to Prime Air, Inc., which subsequently was acquired as a wholly owned subsidiary by the Delaware Corporation, as described above. Prior to the acquisition, Astro had no principal operations and had nominal net assets.

The Company is a development stage company as defined by Statement of Financial Accounting Standards ("SFAS") No. 7. In a development stage company, management devotes most of its activities in developing a market for its products and/or services. 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 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 the terminal facility and commence operations on an economically viable basis. The ability of the Company to emerge from the development stage with respect to any planned principal business activity is dependent upon its successful efforts to raise additional equity financing and/or attain profitable operations. 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 raise any equity financing or sell any of its services at a profit. There is substantial doubt regarding the Company's ability to continue as a going concern.

### 2. Summary of Significant Accounting Policies

#### a) Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned operating subsidiary, Prime Air Inc. (a Canadian corporation). All intercompany transactions and balances have been eliminated. The results of operations and cash flows for the period from the date of inception (March 10, 1989) to December 31, 2003 are presented for information purposes only. These amounts are unaudited and accordingly no audit opinion has been expressed relating to these amounts.

#### b) Year End

The Company's fiscal year end is December 31.

#### c) Use of Estimates

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The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 periods. Actual results could differ from those estimates.

d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

e) Other Comprehensive Income (Loss)

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, 2003 and 2002, the Company's only component of comprehensive income (loss) was foreign currency translation adjustments.

f) Property and Equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is computed on the following methods over the estimated useful life of the asset at the following annual rates:

Air terminal - Straight-line over 30-year term of land and airport facilities lease

Furniture and equipment - 20% Declining-balance

Computer equipment - 30% Declining-balance

g) Long-Lived Assets

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets", the carrying value of long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes an impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

h) Foreign Currency Translation

The functional currency of the Company's Canadian subsidiary is the Canadian dollar. The financial statements of this subsidiary are translated to United States dollars in accordance with SFAS No. 52 "Foreign Currency Translation" using period-end rates of exchange for assets and liabilities, and average rates of exchange for the year for revenues and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity. Foreign currency transaction gains and losses are included in current operations.

i) Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition in Financial Statements." Revenue is recognized only when the price is fixed or

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determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility is reasonably assured. The Company receives income from the rental of the air terminal located in Pemberton, BC, Canada.

### j) Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share" (SFAS 128). SFAS 128 requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using the treasury stock method, and convertible preferred stock, using the if-converted method. In computing Diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive.

### k) Stock-Based Compensation

The Company records stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation". Common stock issued by the Company for services is recognized as compensation expense based on the fair market value of the stock award or fair market value of the goods and services received, whichever is more reliably measurable. The Company does not currently have a stock option plan.

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PRIME AIR, INC.

(A Development Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Summary of Significant Accounting Policies (continued)

### 1) Financial Instruments

The fair values of cash, prepaid expenses, other receivables, notes payable, advances payable, accounts payable and accrued liabilities were estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The Company's operations are in Canada and virtually all of its assets and liabilities have exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

### m) Income Taxes

The Company utilizes the liability method of accounting for income taxes as set forth in SFAS No. 109, Accounting for Income Taxes ("SFAS 109"). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

### n) Recent Accounting Pronouncements

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB 104), which supersedes SAB 101, "Revenue Recognition in Financial Statements." The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of EITF

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00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 did not have a material impact on the Company's financial statements.

In January 2003 the FASB issued FIN 46, Consolidation of Variable Interest Entities ("FIN 46"), which was amended in December 2003. FIN 46 requires an investor with a majority of the variable interests (primary beneficiary) in a variable interest entity ("VIE") to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the voting equity investors do not have a controlling financial interest or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. Development stage entities that have sufficient equity invested to finance the activities they are currently engaged in and entities that are businesses, as defined in FIN 46, are not considered VIE's. The provisions of FIN 46 were effective immediately for all arrangements entered into with new VIE's created after January 31, 2003. For arrangements entered into with VIE's created before January 31, 2003, the provisions of FIN 46 are effective at the end of the first reporting period ending after March 15, 2004. The Company does not have VIE's.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of SFAS No. 150 apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of non-public entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

o) Reclassifications

Certain amounts and/or disclosures in the prior year consolidated financial statements have been reclassified or disclosure revised to conform with the current year presentation.

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Property and Equipment

Property and equipment consist of the following at December 31, 2003 and December 31, 2002:

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|                         | December 31, 2003           |                   | December 31,<br>2002 |           |
|-------------------------|-----------------------------|-------------------|----------------------|-----------|
| Cost                    | Accumulated<br>Amortization | Net Book<br>Value | Net Book<br>Value    |           |
| Air terminal. . . . .   | \$687,619                   | \$ 181,130        | \$506,489            | \$425,493 |
| Computer equipment. . . | 1,150                       | 403               | 747                  | 802       |
| Furniture and equipment | 5,550                       | 4,628             | 922                  | 1,010     |
|                         | \$694,319                   | \$ 186,161        | \$508,158            | \$427,305 |

#### 4. Notes and Advances Payable

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

#### 5. Related Party Transactions

a) Included in due to related parties is an amount of \$12,846 (2002 - \$11,846), which has been advanced to the Company by a shareholder and/or a corporation controlled by that shareholder. This shareholder controls 100% of the related corporation.

b) During the years ended December 31, 2003 and 2002, 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 is accrued. The Company has adopted the policy of issuing "restricted" common shares to certain directors and officers for services rendered. During the year ended December 31, 2003 the Company incurred \$80,000 (2002: \$80,000) of consulting expense provided by directors and officers of the Company. The Company issued a total of 2,400,334 common shares to settle debt obligations of \$160,017, which related to consulting services provided by these related parties. This amount included 1,200,000 shares issued for services provided in the prior year. 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. The common shares issued were recorded based on the fair value of the services received.

#### 6. Common Shares

a) During the year ended December 31, 2003, the Company issued 1,000,000 shares of common stock at \$0.05 per share for cash proceeds of \$50,000 and 30,000 shares of common stock at \$0.1667 per share for cash proceeds of \$5,000.

b) During the year ended December 31, 2003, the Company issued 185,000 shares of common stock at \$0.05 per share, and 150,000 shares of common stock at \$0.1667 per share to creditors to settle debt of \$34,250.

c) During the year ended December 31, 2003, the Company issued 800,000 shares of common stock at \$0.10 per share to a director of the Company to settle debt of \$80,000, and 1,600,334 shares of common stock at \$0.05 per share to directors of the Company to settle debt of \$80,017.

#### 7. Commitments

The Company's wholly owned Canadian subsidiary ("subsidiary") entered into an Airport Lease and Operating Agreement ("the "Agreement") with The Corporation of The Village of Pemberton in British Columbia in 1993 whereby it was granted an exclusive and irrevocable lease over the lands and airport facilities associated with the Pemberton Airport. The initial lease term commenced on October 29, 1993

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and ended on October 31, 1996. The subsidiary exercised its option for extensions of the Agreement, which currently expires in 2004, however the Company has two ten-year options for extension available, which require written notice within six months prior to the expiry of the Extension Term. The Company plans to file written notice with the Village of Pemberton to exercise the first 10-year option extension.

Rent payable under the Agreement is based on 5% of gross receipts per annum derived from the operation of the terminal facilities, excluding amounts received in connection with the sale of airline tickets and other forms of transportation. The Company paid rent expense of \$165 for the year ended December 31, 2003 (2002: NIL), which represented 5% of gross rental receipts. 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. The Company paid property taxes imposed by municipal authorities amounting to \$9,383 for the year ended December 31, 2003 (2002: \$9,859).

The Village of Pemberton, in the event of a material default or bankruptcy by the Company, may terminate the Agreement. The terminal facilities shall become the property of the Village of Pemberton at the expiration of the Agreement.

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PRIME AIR, INC.  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109") as of its inception. The Company has incurred net operating losses of approximately \$1,444,000, which expire starting in 2015. Net operating losses in Canada expire after seven years. 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 components of the net deferred tax asset at December 31, 2003, and the statutory tax rate, the effective tax rate and the elected amount of the valuation allowance are scheduled below:

|                               | December 31,<br>2003<br>\$ |
|-------------------------------|----------------------------|
| Net Operating Loss . . . . .  | 65,000                     |
| Statutory Tax Rate . . . . .  | 35%                        |
| Effective Tax Rate . . . . .  | -                          |
| Deferred Tax Asset . . . . .  | 22,750                     |
| Valuation Allowance . . . . . | (22,750)                   |
| -----                         |                            |
| Net Deferred Tax Asset        | -                          |
| =====                         |                            |

### 9. Subsequent Events

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In January, 2004 the Company issued 90,000 shares of common stock to creditors to settle debt obligations of \$6,497.

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

#### (a) Previous independent accountants

(i) On March 19, 2004, the Company dismissed Rutherford & Company Chartered Accountants as the Company's independent accountants.

(ii) Rutherford & Company's reports on the Company's financial statements as of and for the years ended December 31, 2002, and December 31, 2001, contained no adverse opinions or disclaimers of opinion and were not modified or qualified as to audit scope or accounting principles, but did not contain modifications as to the Company's ability to continue as a going concern.

(iii) The Company's Board of Directors approved the decision to change independent accountants.

(iv) During the two fiscal years ended December 31, 2002 and December 31, 2001, and through the subsequent interim period ended March 19, 2004, to the best of the Company's knowledge, there have been no disagreements with Rutherford & Company, Chartered Accountants on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreement if not resolved to the satisfaction of Rutherford & Company, Chartered Accountants would have caused them to make reference in connection with its report on the financial statements of the Registrant for such years.

(v) During the two fiscal years ended December 31, 2002 and December 31, 2001, and through the subsequent interim period ended March 19, 2004, Rutherford & Company did not advise the Company on any matter set forth in Item 304(a)(1)(iv)(B) of Regulation S-B.

(vi) The Company requested that Rutherford & Company furnish it with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of such letter was filed as Exhibit 16.1 to the Form 8-K reporting the event.

#### (b) New Independent Accountants

On March 19, 2004, the Company engaged Manning Elliot, Chartered Accountants to audit its financial statements for the year ended December 31, 2003. During the two most recent fiscal years end December 31, 2003 and December 31, 2002, and through March 19, 2004, the Company did not consult with Manning Elliot, Chartered Accountants regarding the (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and no written report or oral advice was provided to the Company by concluding there was an important factor to be considered by the Company in reaching a decision as to an accounting, auditing or financial reporting factor to be considered by the Company in reaching a decision to an accounting, auditing or financial reporting issue; or (ii) any matter that was either the

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subject of a disagreement, as the term is defined in Item 304(a)(1)(iv)(A) of Regulation S-B or an event, as that term is defined in Item 304(a)(1)(iv)(B) or Regulation S-B.

### 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, 2003 are as follows:

| Name              | Age | Position                          |
|-------------------|-----|-----------------------------------|
| Blaine Haug . . . | 56  | Chief Executive Officer, Chairman |
| Wayne Koch (1). . | 53  | Treasurer and Director            |
| Nigel Horsley (2) | 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.

(2) Mr. Nigel Horsley resigned as a director on June 7, 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 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.

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

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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. Mr. Koch resigned as a director and executive officer of the Company on March 19, 2004.

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. Mr. Horsley resigned on June 7, 2004.

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 Saskatunewan, Alberta, Canada, a Ford car dealership.

DR. ALBERT BRUNO - Director since March 19, 2004. Dr. Bruno DC is a graduate of the Palmer College of Chiropractic. In private practice since 1990, Dr. Bruno operates a chiropractic practice and consulting business in Seattle, WA. He is licensed in both Washington and Pennsylvania. Utilizing his business experience, he assists in the start-up of new chiropractic clinics and the restructuring of multi-clinic operations. Dr. Bruno has been actively involved with Prime Air for the past 9 years as a consultant.

CHRISTOPHER BENSON - Director since June 7, 2004. For at least the past five years, Mr. Benson has been a practicing real estate and business lawyer in the states of Washington and Arizona. Mr. Benson represents numerous pilots and has gained extensive working knowledge of a wide range of airport operation matters ranging from public to private airports through his cases and the experts involved. Mr. Benson is currently on the Board of Directors for Habitat for Humanity, Seattle-South King County and for the past 12 years has taught Washington State Certified Real Estate Law classes for continuing education credits to real estate brokers, appraisers and surveyors.

ITEM 10. EXECUTIVE COMPENSATION

The Company, including Prime Air BC, had one employee as of December 31, 2003, consisting of Mr. Haug.

SUMMARY COMPENSATION TABLE

| Annual Compensation | Long Term Compensation |            | All  |
|---------------------|------------------------|------------|------|
|                     | Awards                 | Payout     |      |
| -----               | -----                  | -----      |      |
|                     | Restricted             | Securities | LTIP |

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|             | Year | Salary | Bonus (\$) | Other Annual Compensation (\$) | Stock Award(s) | Underlying Options (#) | Payout (\$) | Compe ( |
|-------------|------|--------|------------|--------------------------------|----------------|------------------------|-------------|---------|
| Blaine Haug | 2003 | \$ 0   | -0-        | -0-                            | 400,000 (1)    | -0-                    | -0-         |         |
| President . | 2002 | \$ 0   | -0-        | -0-                            | 400,000 (1)    | -0-                    | -0-         |         |
| * . . . . . | 2001 | \$ 0   | -0-        | -0-                            | 400,000 (1)    | -0-                    | -0-         |         |

(1) Mr. Haug receives 400,000 shares of the Company common stock for his 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 2003

The Company made no stock option grants during calendar year 2003.

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, 2003.

FISCAL YEAR END OPTION VALUES

There are no options outstanding.

DIRECTOR FEES

During the year ended December 31, 2003, 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.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Because the Company is not registered under Section 12 of the Exchange Act, it is not subject to the reporting requirements under Section 16(a).

CODE OF ETHICS

Due to limited resources, the Company has not yet adopted a code of ethics. The Company has recently engaged new corporate counsel who will assist the Company in drafting and adopting a code of ethics.

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 March 31, 2004 to (i) each person who is known by the Company to own beneficially more than five percent (5%) of

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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<br>and certain Executive Officers       | Common Stock<br>Beneficially Owned | Percentage<br>Owned |
|--|------------------------------------|---------------------|
| Blaine Haug . . . . .  | 5,228,547 (1)                      | 19.2%               |
| Dr. Albert Bruno. . . . .  | 0                                  | 0                   |
| Nigel Horsley . . . . .  | 100,000                            | .4%                 |
| John Eberhard . . . . .  | 395,340                            | 1.5%                |
| Greg Duffy. . . . .  | 94,720                             | 0.3%                |
| All directors and current executive<br>officers as a group (5 persons) . . . | 5,818,607                          | 21.4%               |

(1) Includes shares held by a trust under Mr. Haug's control.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the years ended December 31, 2003 and 2002, 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   |

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- 10.1 Statement on Form S-4 filed with the Commission on June 2, 1997) 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)
- 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)
- 10.5 Memorandum of Understanding with Galvin Flying Service, Inc. (Incorporated by reference to Exhibit 10.5 to Form 10-QSB for the nine months ended September 30, 2003 filed with the Commission on May 6, 2004.)
- 16.1 Letter regarding change in Certifying Accountants (incorporated to Form 8-K filed with the Commission on April 1, 2004.)
- 31.1 CEO certification under Section 302 of Sarbanes-Oxley Act
- 31.2 CFO certification 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.

Manning & Elliot served as the Company's independent accountants for the fiscal year ended December 31, 2003, 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, 2003 and 2002, the following fees were paid for services provided by Manning & Elliot and Rutherford & Company, respectively.

**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, 2003 and 2002 and the review of the Company's quarterly reports for such years, amounted to approximately \$6,000 to Manning & Elliott and \$7,323 to Rutherford & Company, respectively.

**Audit Related Fees.** For the years ended December 31, 2003 and 2002, the Company paid no fees to Manning & Elliott or Rutherford & Company related to other audit related fees.

**Tax Fees.** For the years ended December 31, 2003 and 2002, the Company paid no fees to Manning & Elliott nor Rutherford & Company related to tax fees.

**All Other Fees.** For the years ended December 31, 2003 and 2002, the Company did not pay Manning & Elliott nor Rutherford & Company for any non-audit services.

The Company does not have an audit committee. Prior to engaging the Company's Independent auditors, the board of directors will review and approve the scope of the engagement and any other services proposed to be offered by the Company's

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Independent accountants. During the years ended 2003 and 2002, the Company did not engage its Independent accountants to perform services as set for in Items 9(e) (2) and 9(e) (4) of Schedule 14A.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.  
Prime Air, Inc.

June 16 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)

In accordance with the Exchange Act, this Annual Report has been signed below by the following persons on behalf of the Registrant and of the corporations and on the dates indicated:

Date: June 16, 2004 /s/ Blaine Haug  
-----  
Blaine Haug, Director

Date: -----  
-----  
John Eberhard, Director

Date: June 17, 2004 /s/ Greg Duffy  
-----  
Greg Duffy, Director

Date: June 17, 2004 /s/ Albert Bruno  
-----  
Albert Bruno, Director

Date: June 18, 2004 /s/Christopher Benson  
-----  
Christopher Benson, Director