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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB/A
AMENDMENT NO. 2

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2003

OR

[ ] 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
State or other jurisdiction of incorporation or organization	I.R.S. Employer I.D. No.

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

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

Check whether the Issuer (1) has filed all reports required to be filed by section 13 or 15(d) of the Exchange Act of 1934 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 fling requirements for the past 90 days.
Yes [X] No [ ]

State the number of shares outstanding of each of the Issuer's classes of common equity as of the latest practicable date: At September 30, 2003, there were 25,518,666 shares of the Registrant's Common Stock outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS

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

	September 30 2003 (Unaudited)	December 31 2002 (Audited)
ASSETS		
Current Assets		
Cash and short-term deposits	$ 20,225	$ 512
Prepaid expenses	6,247	1,586
Goods and Services Tax recoverable	-	1,357
	26,472	3,455
Capital Assets (Note 4)	481,275	427,305
	$ 507,747	$ 430,760
LIABILITIES		
Current Liabilities		
Accounts payable and accruals	$ 131,058	$ 213,682
Due to related parties (Note 8)	56,846	91,846
Notes and advances payable (Note 6)	26,129	21,301
	214,033	326,829
SHAREHOLDERS' EQUITY		
Capital Stock (Note 7)		
Authorized: 150,000,000 common shares with a stated par value of $.001/share; 5,000,000 preferred cumulative convertible shares with a stated par value of $.001/share		
Issued:		
25,518,666 common shares (December 31, 2002: 23,318,666 shares)	25,519	23,319
Capital in excess of par value	4,294,992	4,167,192
Accumulated other comprehensive income (loss)	41,508	(9,721)
Deficit accumulated during development stage	(4,068,305)	(4,076,859)
	293,714	103,931
	$ 507,747	$ 430,760

See Accompanying Notes to Financial Statements

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

	Three months ended 30-Sep 2003	Three months ended 30-Sep 2002	Nine months ended 30-Sep 2003	Nin 3
	(Unaudited)	(Unaudited)	(Unaudited)	(Un
Administrative And General Expenses				
Flight operations.	$ -	$ -	$ -	$
Audit and accounting	1,106	961	3,174	
Advertising.	-	-	-	
Amortization	5,504	3,062	15,793	
Association membership fees.	-	-	-	
Automotive	52	-	2,327	
Bad debts.	-	-	-	
Commissions and finders' fees.	-	-	-	
Consulting	-	14,000	10,000	
Consulting to related parties.	15,000	20,000	45,000	
Foreign currency translation	-	-	-	
Insurance.	-	784	382	
Interest and service charges	(861)	56	(712)	
Legal costs (recovery) (Note 5)	(106,996)	-	(106,996)	
Management remuneration.	-	-	-	
Office and general	407	-	1,494	
Repairs and maintenance.	343	-	967	
Rent and property taxes - airport facility	9,123	8,226	9,123	
Telephone and utilities (recovery) . . .	344	(852)	3,338	
Transfer agent, listing and filing fees.	1,250	615	3,556	
Travel, promotion and entertainment. . .	-	-	-	
	(74,728)	32,852	(8,554)	
Net Income (Loss) For The Period	(74,728)	(32,852)	8,554	
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments.	160	(13,989)	51,229	
Comprehensive Income (Loss).	(74,568)	(46,841)	59,783	
Net Income (Loss) Per Common Share	0	0	0	
Weighted Average Common Shares Outstanding.	23,483,281	22,898,666	22,983,281	

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

	Nine months ended September 30 2003 (Unaudited)	Nine months Ended September 30 2002 (Unaudited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income (loss) for the period	$ 8,554	$ (96,957)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	15,793	9,138
(Increase) in prepaid expenses	(4,198)	(2,727)
(Increase) decrease in goods and services tax recoverable.	1,875	(87)
Increase in due to related parties	45,000	60,000
Increase in accounts payable	(97,533)	13,371
	(30,509)	(17,262)
FINANCING		
Issue of common stock for cash	50,000	-
Notes and advances payable	1,411	17,000
	51,411	17,000
INVESTING		
	-	-
Effect of exchange rate changes on cash	(1,189)	(150)
NET CASH INFLOW (OUTFLOW)	19,713	(412)
CASH, BEGINNING OF PERIOD	512	2,089
CASH, END OF PERIOD	$ 20,225	$ 1,677
NON-CASH FINANCING ACTIVITIES		
Common stock issued for debt	80,000	131,000

See Accompanying Notes To Financial Statements

PRIME AIR, INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003 and 2002

1. INCORPORATION, PRINCIPLES OF CONSOLIDATION AND ACCOUNTING PRESENTATION

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

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

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

2. NATURE OF OPERATIONS / GOING CONCERN CONSIDERATIONS

The Company is presently in its developmental stage and currently has minimal sources of revenue to provide incoming cash flows to sustain future operations. The Company's present activities relate to the construction and ultimate exclusive operation of an international passenger and cargo air terminal facility in the Village of Pemberton, British Columbia and the operation of scheduled flight services between that facility and certain major centers in Canada and the United States in conjunction with Voyageur Airways Limited. Terminal building construction was substantially completed in May 1996. The future successful operation of the Company is dependent upon its ability to obtain the financing required to complete and operationalize the terminal facility and to commence operation thereof on an economically viable basis. Management believes the Company will be able to generate sufficient funds to meet its obligations for a period of at least twelve months from the balance sheet date. There is no guarantee that the Company will be able to complete any of the above objectives. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

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

PRIME AIR, INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003 and 2002

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Translation

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

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

Fair Value of Financial Instruments

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

Receivables / Prepaid Expenses

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

Capital Assets

a) Air Terminal Construction Costs: Expenditures relating directly to the construction of the air terminal facility and related engineering and design have been recorded in the accounts of the Company at cost, net of amortization which is provided on a straight-line basis over the 30-year term of the property lease.

b) Furniture and Equipment: Furniture and equipment is stated at cost, net of amortization which is provided for at the rate of 20% per annum on the declining balance basis.

c) Computer: Computer equipment is stated at cost, net of amortization which is provided for at the rate of 30% per annum on the declining balance basis.

PRIME AIR, INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003 and 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In these financial statements, assets, liabilities and results of operations involve significant reliance on management estimates. Actual results could differ from the use of those estimates.

Income Taxes

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

Other Comprehensive Income (Loss)

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income (loss) and its components in the financial statements. As at September 30, 2003, the Company had accumulated other comprehensive income of $41,508 which is comprised of foreign currency translation adjustments.

4. CAPITAL ASSETS

Capital assets consist of the following at September 30, 2003 and December 31, 2002:

	September 30, 2003		December 31, 2002
	Accumulated	Net Book	Net Book

	Cost	Amortization	Value	Value
Air terminal construction costs	$647,389	$ 167,839	$ 479,550	$ 425,493
Computer equipment.	1,100	331	769	802
Furniture and equipment	5,309	4,353	956	1,010
	$653,798	$ 172,523	$ 481,275	$ 427,305

5. SETTLEMENT OF ACCOUNTS PAYABLE

During the nine months ended September 30, 2003, the Company agreed to settlements of outstanding legal fees included in accounts payable for less than face value, and recognized a recovery of $106,996.

6. NOTES AND ADVANCES PAYABLE

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

PRIME AIR, INC.
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003 and 2002

7. CAPITAL STOCK

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

During the nine month period ended September 30, 2003, the Company issued 1,200,000 shares of common stock to directors by way of debt settlements covering obligations of $80,000. The Company also issued 1,000,000 shares of common stock for cash consideration of $50,000. During the nine month period ended September 30, 2002, the Company issued 1,020,000 shares of common stock by way of debt settlements covering obligations of $131,000, of which directors received 800,000 shares to settle obligations of $100,000.

8. RELATED PARTY TRANSACTIONS

Included in due to related parties is an amount of $11,846 which has been advanced to the Company by a shareholders and/or a corporation controlled by that shareholder who is the beneficial owner of 2,245,226 shares of common stock of the Company, that holding representing 10.22% of the issued and outstanding capital of the Company.

During the nine months ended September 30, 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 accrued. The Company has adopted the policy of issuing "restricted" common shares to certain directors and officers for services rendered in a later period than when the services were performed. The common shares later issued in settlement of these obligations are recorded based on the fair value of the services performed, being the measurement date. Also included in due to related parties is an amount of $45,000 (December 31, 2002 - $80,000), which is the value of services rendered by directors for consulting services provided in the current and prior fiscal periods.

During the nine months ended September 30, 2003, directors of the Company received 1,200,000 common shares by way of a debt settlement covering obligations of $80,000. During the nine months ended September 30, 2002, directors of the Company received 800,000 common shares by way of a debt settlement covering obligations of $100,000.

9. RENT, PROPERTY TAXES AND LEASE COMMITMENT

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

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

- 5% of gross receipts per annum derived from the operation of the terminal facilities, excluding amounts received in connection with the sale of airline tickets and other forms of transportation. The lease commitment amounts for 2002 through 2006 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 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.

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The terminal facilities shall become the property of the Village of Pemberton at the expiration of the Airport Agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

GENERAL

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Some of the information presented in 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 the inability of the Company to raise the additional capital necessary to commence its principal operations or the failure to consummate a definitive agreement with Voyageur Airways Limited.

A Memorandum of Understanding has been entered into between Prime Air, Inc., and Galvin Flying Service, Inc., of Seattle Washington. A news release dated September 30, 2003 was prepared announcing the foundation of this relationship. Further, a commercial tenant has entered into month to month agreements with Prime Air in aviation related business. 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 of this reporting have been received with respect to this item.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 future successful operation of the Company is dependent upon its ability to obtain the financing required to complete and operate the terminal facility in Pemberton, British Columbia and to commence air service operations to Pemberton, British Columbia on an economically viable basis.

The financial statements of the Company have been prepared on a "going concern" basis which assumes the Company will be able to realize its assets, obtain financing as required and discharge its liabilities and commitments in the normal course of business. Other than a commitment from management to provide funds for minimal operational requirements, there is no present commitment for funds adequate to provide for operational items necessary to complete the start up of air service activities.

THE PAST YEAR/QUARTER. Due to the Company's negative working capital, the year 2002 and the current operating quarter remain difficult. The Company has sought

to minimize operating costs. The overriding constraint has been cash flow. Management, however, was able to "settle" amounts owing to three law firms, representing a net benefit to the company of $106,996 during the quarter.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002.

The Company earned no revenue during the nine months ended September 30, 2002.

Expenses were a positive $8,554 for the nine months ended September 30, 2003 compared to $96,957 for the nine months ended September 30, 2002. The reason for the positive expense is due to the settlement with three law firms wherein a reduced amount was paid to reach a full and final settlement of amounts owing, plus the calculation of an exchange difference reflecting the weakening of the US dollar in comparison to the Canadian dollar as it becomes a loss on foreign exchange conversion in the financial statements of the Company. Other expenses consisted of $14,000 and $10,000 of consulting expenses for the nine months ended September 30, 2003, and 2002 respectively, and consulting fees to the president and directors of $45,000 and $60,000 for the nine months ended September 30, 2003 and 2002, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2003, the Company's negative working capital was ($127,561) compared with a negative working capital balance of ($323,374) at December 31, 2002.

The Company currently has no revenue and will not generate any revenue until it begins its operation at Pemberton. Historically, the Company has funded its operations through loans and issuance of its common stocks. No assurance can be given that the Company will be able to continue to receive loans for its operations.

ITEM 3. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined by Exchange Act Rule 13a-15(e)) as of the end of our first fiscal quarter pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no changes in our internal control over financial reporting identified in connection with our evaluation as of the end of the first fiscal quarter that occurred during such quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. 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.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

No matters were submitted to a vote of the shareholders during the quarter ended September 30, 2003.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits

Exhibit No.	
10.5	Memorandum of Understanding with Galvin Flying Service, Inc.
31.1	Certification by the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification by the Principal Accounting Officer Pursuant to Section

302 of the Sarbanes-Oxley Act

32 Certification by the Principal Executive and Financial Officers Pursuant to Section 906 of the Sarbanes-Oxley Act

(B) Reports on Form 8-K.

None

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 2 to Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Vancouver, province of British Columbia, on the 30th day of April, 2004.

Prime Air, Inc.

By: /s/ Blaine Haug

Blaine Haug
Chief Executive Officer
(Principal Executive and Principal
Accountant and Financial Officer