

Edgar Filing: PRIME AIR INC - Form 10QSB

PRIME AIR INC  
Form 10QSB  
November 22, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarter ended September 30, 2004

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, -----	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 filing requirements for the past 90 days.  
Yes  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, 2004, there were  
31,774,200 shares of the Registrant's Common Stock outstanding.

PART 1

ITEM 1. FINANCIAL STATEMENTS

Prime Air, Inc.  
(A Development Stage Company)

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September 30, 2004

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

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

ASSETS

Current Assets

Cash  
Prepaid expenses and deposits  
Other receivables

Total Current Assets

Property and Equipment (Note 3)

Total Assets

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 8)

STOCKHOLDERS' EQUITY

Sept  
2  
(una

\$

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\$

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\$

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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, 31,774,200 and 27,084,000 issued and outstanding, respectively

Additional Paid In Capital

Stock Subscriptions Receivable (Note 6 (a))

Accumulated other comprehensive income

Deficit accumulated during the development stage

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

(The accompanying notes are an integral part of these consolidated financial statements)

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

	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Nine mont ended September 2003
Revenue				
Rental income	\$ 1,154	\$ -	\$ 4,376	\$ -
Expenses				
Flight operations	-	-	-	-
Advertising and promotion	846	-	2,327	-
Amortization	5,854	5,504	17,140	15,000
Consulting	15,075	-	17,789	14,000
Consulting to related parties (Note 5(c))	17,500	15,000	70,000	45,000
General and administrative	21,847	10,658	53,607	20,000
Professional fees	15,890	1,106	67,560	3,000
	77,012	32,268	228,423	98,000

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Loss from Operations	(75,858)	(32,268)	(224,047)	(98,
Gain on Settlement of Debt	17,500	106,996	28,750	106,
Net Income (Loss) for the Period	(58,358)	74,728	(195,297)	8,
Other Comprehensive Income				
Foreign currency translation adjustments	25,391	160	9,583	51,
Comprehensive Income (Loss)	\$ (32,967)	\$ 74,888	\$ (185,714)	\$ 59,
Net Loss Per Common Share - Basic and diluted	-	-	(0.01)	
Weighted Average Common Shares Outstanding	31,555,000	23,483,000	29,120,000	22,983,

(The accompanying notes are an integral part of these consolidated financial statements)

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

	Nine Months Ended September 30, 2004
CASH FLOWS TO OPERATING ACTIVITIES	
Net loss for the period	\$ (195,297)
Adjustments to reconcile net loss to net cash used in operating activities:	
Gain on settlement of debt	(28,750)
Shares issued for services	20,650
Amortization	17,140
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(1,364)

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(Increase) decrease in deposits and prepaid expenses	1,515	
Increase in due to related parties	39,302	
Increase (decrease) in accounts payable and accrued liabilities	84,240	
	-----	
Net Cash Used In Operating Activities	(60,564)	
	-----	
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	435	
Purchase of property and equipment	(1,829)	
	-----	
Net Cash Used In Investing Activities	(1,394)	
	-----	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes and advances payable	1,500	
Proceeds from issuance of common stock	64,000	
	-----	
Net Cash Provided by Financing Activities	65,500	
	-----	
EFFECT OF EXCHANGE RATE CHANGES ON CASH	4,952	
	-----	
INCREASE IN CASH	6,494	
CASH, BEGINNING OF PERIOD	2,691	
	-----	
CASH, END OF PERIOD	\$ 9,185	\$
	=====	=====
NON-CASH FINANCING ACTIVITIES		
Common stock issued for debt	\$ 150,386	\$
Common stock issued for services	\$ 20,650	\$
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ -	\$
Income taxes paid	\$ -	\$

(The accompanying notes are an integral part of the consolidated financial statements)

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PRIME AIR, INC.  
(A Development Stage Company)  
Notes to Consolidated Financial Statements  
(Expressed in US dollars)  
(unaudited)

1. Development Stage Company

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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. (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 "Accounting and Reporting by Development Stage Enterprises". 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. (the Canadian corporation). All intercompany transactions and balances have been eliminated. The Company's fiscal year end is December 31.

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### b) Use of Estimates

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.

### c) 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 Consolidated Financial Statements  
(Expressed in US dollars)  
(unaudited)

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

### d) Other Comprehensive Income (Loss)

Statement of Financial Accounting Standards ("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 September 30, 2004 and 2003, the Company's only component of comprehensive income (loss) were foreign currency translation adjustments.

### e) 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

### f) 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 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.

### g) 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

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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.

### h) Revenue Recognition

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

### i) 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" which 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.

### j) Stock-Based Compensation

The Company records stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation". All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued. The Company does not currently have a stock option plan.

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PRIME AIR, INC.  
(A Development Stage Company)  
Notes to Consolidated Financial Statements  
(Expressed in US dollars)  
(unaudited)

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

### k) 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 are giving rise to significant



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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.

### l) Income Taxes

The Company utilizes the liability method of accounting for income taxes as set forth in SFAS No. 109, "Accounting for Income Taxes". 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.

### m) Recent Accounting Pronouncements

In December 2003, the United States 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 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.

### n) 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.

### o) Interim Financial Statements

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.

## 3. Property and Equipment

	September 30, 2004		December 31, 2003	
Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Air terminal	\$700,799	\$ 202,139	\$498,660	\$ 506,489
Computer equipment	1,680	620	1,060	747
Furniture and equipment	6,657	4,908	1,749	922
	\$709,136	\$ 207,667	\$501,469	\$ 508,158

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### 4. Notes and Advances Payable

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

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PRIME AIR, INC.  
(A Development Stage Company)  
Notes to Consolidated Financial Statements  
(Expressed in US dollars)  
(unaudited)

### 5. Related Party Transactions

a) Included in due to related parties is an amount of \$19,300, representing cash advances made during the nine months ended September 30, 2004 (December 31, 2003 - \$12,846) to the Company by a shareholders and/or a corporation controlled by that shareholder. This shareholder controls 100% of the related corporation. This amount is unsecured, non-interest bearing and has no specific terms of repayment.

b) Included in due to related parties is an amount of \$21,560 (December 31, 2003 - \$26,402) which represents consulting fees and expenses incurred on behalf of the Company by directors and officers. These amounts are unsecured, non-interest bearing and have no specific terms of repayment.

c) During the three months ended September 30, 2004, the Company issued 350,000 common shares to various directors/officers of the Company at \$0.05 per share for consulting services provided to the Company.

### 6. Common Shares

a) During the three month period ended September 30, 2004, the Company issued 413,000 shares of common stock at \$0.05 per share for services of \$20,650, and 60,000 shares of common stock at \$0.10 per share for cash proceeds of \$6,000, of which \$5,000 is recorded as stock subscriptions receivable.

b) During the three month period ended September 30, 2004, the Company issued 429,200 shares of common stock at \$0.05 per share for debt settlement of \$36,460, which resulted in a debt settlement gain of \$15,000.

c) During the three month period ended September 30, 2004 the Company issued 50,000 shares of common stock at \$0.05 per share for debt settlement \$5,000, which resulted in a debt settlement gain of \$2,500.

d) During the three month period ended June 30, 2004, the Company issued 1,220,000 shares of common stock at \$0.05 per share for cash proceeds of \$61,000.

e) During the three month period ended June 30, 2004, the Company issued 20,000 shares of common stock at \$0.10 per share for cash proceeds of \$2,000.

f) During the three month period ended June 30, 2004, the Company issued 2,408,000 shares of common stock at \$0.05 per share for debt settlement of \$131,179 which resulted in debt settlement gain of \$11,250.

g) During the three month period ended March 30, 2004, the Company issued 50,000 shares of common stock at \$0.05 per share for debt settlement of \$2,497, and issued 40,000 shares of common stock at \$0.10 per share for debt settlement

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of \$4,000.

### 7. Commitments and Contingencies

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 ("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 and ended on October 31, 1996. The subsidiary exercised its option for extensions of the Agreement, which currently expires in October 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. Pemberton may terminate the Agreement in the event of a material default or bankruptcy by the Company. The terminal facilities together with the land shall revert to Pemberton at the expiration of the Agreement.

### 8. Subsequent Event

In October 2004, the Agreement with Pemberton expired due to the Company failing to timely file written notice with Pemberton in April 2004 to exercise the ten-year option extension to October 2014. However, the Company and Pemberton have recently concluded re-negotiating the lease and have verbally agreed to terms of extension through October 2014. The parties are in the process of formalizing the agreement.

As in the original lease, the terms of the re-negotiated agreement specify that rent is payable 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, subject to minimum annual rent of CDN\$2,500.

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

### General

Management's Discussion and Analysis of Financial Condition and Results of  
-----  
Operation  
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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.

The Company is the parent of a wholly owned 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." for the purpose of establishing air service to serve the Whistler, British Columbia, Canada, area. 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

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the Pemberton Airport.

To the present date, 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. However, 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.

The results of the operations for the quarter ended September 30, 2004 show substantially greater expenses incurred than the same period of the previous year. Because the Company is in its "development stage," these figures will not be representative of the Company's future operations.

### Recent Events

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The Company's primary asset consists of a Lease and Operating Agreement with the Village of Pemberton, British Columbia, Canada 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, Except Plan KAP 44479) to enable Prime Air (BC) to undertake the planning, development, construction, management, and operation of a terminal facility.

The term of the lease commenced as of the Effective Date (June 1, 1995) and is subject to certain renewals. Provided that the Company follows the procedure for renewal and is not in default under the lease, it will have the right to use the terminal facility until 2025.

Due to an administrative error, the Company inadvertently failed to renew the lease within the specified time frame. Therefore, the lease terminated on October 31, 2004. However, the Company has had discussion with the City of Pemberton, and has effectively renewed the lease under substantially the same terms and conditions.

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### Results of Operations

Nine months ended September 30, 2004 compared to September 30, 2003.

During the nine months ended September 30, 2004, the Company earned revenues of \$4,376 from the rental of retail space at its terminal facility. No similar revenues were earned during the same period of the prior year.

Total expenses for the nine months ended September 30, 2004 were \$228,423 compared to \$98,442 for the nine months ended for September 30, 2003.

During the nine months ended September 30, 2004, the Company incurred consulting fees, consulting fees to related parties, general and administrative expenses and professional fees of \$17,789, \$70,000, \$53,607, and \$67,560, respectively, compared to consulting fees, consulting fees to related parties, general and administrative expense and professional fees of \$14,000, \$45,000, \$20,475 and \$3,174, respectively for the same period of the prior year. During the nine months ended September 30, 2004, professional expenses increased primarily in accounting and legal fees in an effort to bring the Company in

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compliance with its SEC filings. Consulting fees to related parties increased due to the increased activity of two directors who are providing consulting services to the Company, and general and administrative expenses increased due to the Company's anticipation of operations for chartered flights.

### Liquidity and Capital Resources

As of September 30, 2004, the Company's negative working capital was (\$85,216) compared to a negative working capital of (\$141,227) as of December 31, 2003.

The Company currently has limited revenues and will not generate substantial revenue until it begins its operation at Pemberton. Historically, the Company has funded its operations through loans from related parties and issuance of its common stock. No assurance can be given that the Company will be able to continue to receive such 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 second 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 second fiscal quarter that occurred during such quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II

### ITEM 1. LEGAL PROCEEDINGS

Neither the Company nor any of its properties is a party to any legal proceedings.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended September 30, 2004, the Company sold the following unregistered shares.

1. During the three month period ended September 30, 2004, the Company issued 413,000 shares of common stock at \$0.05 per share for services of \$20,650, and 60,000 shares of common stock at \$0.10 per share for cash proceeds of \$6,000, of which \$5,000 is recorded as stock subscriptions receivable.
2. During the three month period ended September 30, 2004, the Company issued 429,200 shares of common stock at \$0.05 per share for debt settlement of \$36,460, which resulted in a debt settlement gain of

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\$15,000.

3. During the three month period ended September 30, 2004 the Company issued 50,000 shares of common stock at \$0.05 per share for debt settlement \$5,000, which resulted in a debt settlement gain of \$2,500.

The above issuances of shares were not registered upon reliance of either Regulation S or Section 4(2) of the Securities Act of 1933.

### 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 June 30, 2004.

### ITEM 5. OTHER INFORMATION

At meeting held on September 15, 2004, the Board of Directors approved a certain resolutions including the appointment of Douglas Lineberry as a director, the granting to directors 25,000 shares of Prime Air stock per quarter for services rendered, and the granting 6.5 million shares and five year options to purchase 8 million at \$0.05 per share to six executive officers. At the same meeting, the Board of Directors also approved the issuance of 800,000 shares of common stock on a quarterly basis to these six executives in lieu of salary since the Company did not have the cash to compensate such executives. The resolution appointing Douglas Lineberry was passed by a majority vote of the board. All of the remaining resolutions were unanimously approved by the five incumbent directors who attended the meeting and Mr. Lineberry and the minutes of the meeting were ratified. However, one director who did not attend the meeting is challenging the validity of the meeting since he claimed that notice of the meeting was not properly transmitted in the matter called for by the Company's bylaws even though it had been the Board of Director's prior custom and practice to transmit notice in this manner. This director challenges proper

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notice of the meeting on the grounds that he was not 'telegraphed' a notice of the meeting, but received a notice by fax, email and voicemail. Therefore this director is disputing the resolutions adopted at this meeting as well as the issuance of shares and options. The shares and options have been issued by the board, but no stock certificates have yet been issued by the transfer agent.

### ITEM 6. EXHIBITS

(A) Exhibits

Exhibit No.

-----

- 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

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, Washington, on the 22nd day of November, 2004.

Prime Air, Inc.

By: /s/ Dr. Albert Bruno

-----  
Dr. Albert Bruno  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Jan Gossing

-----  
Jan Gossing  
Chief Financial Officer  
(Principal Accountant and Financial Officer)

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