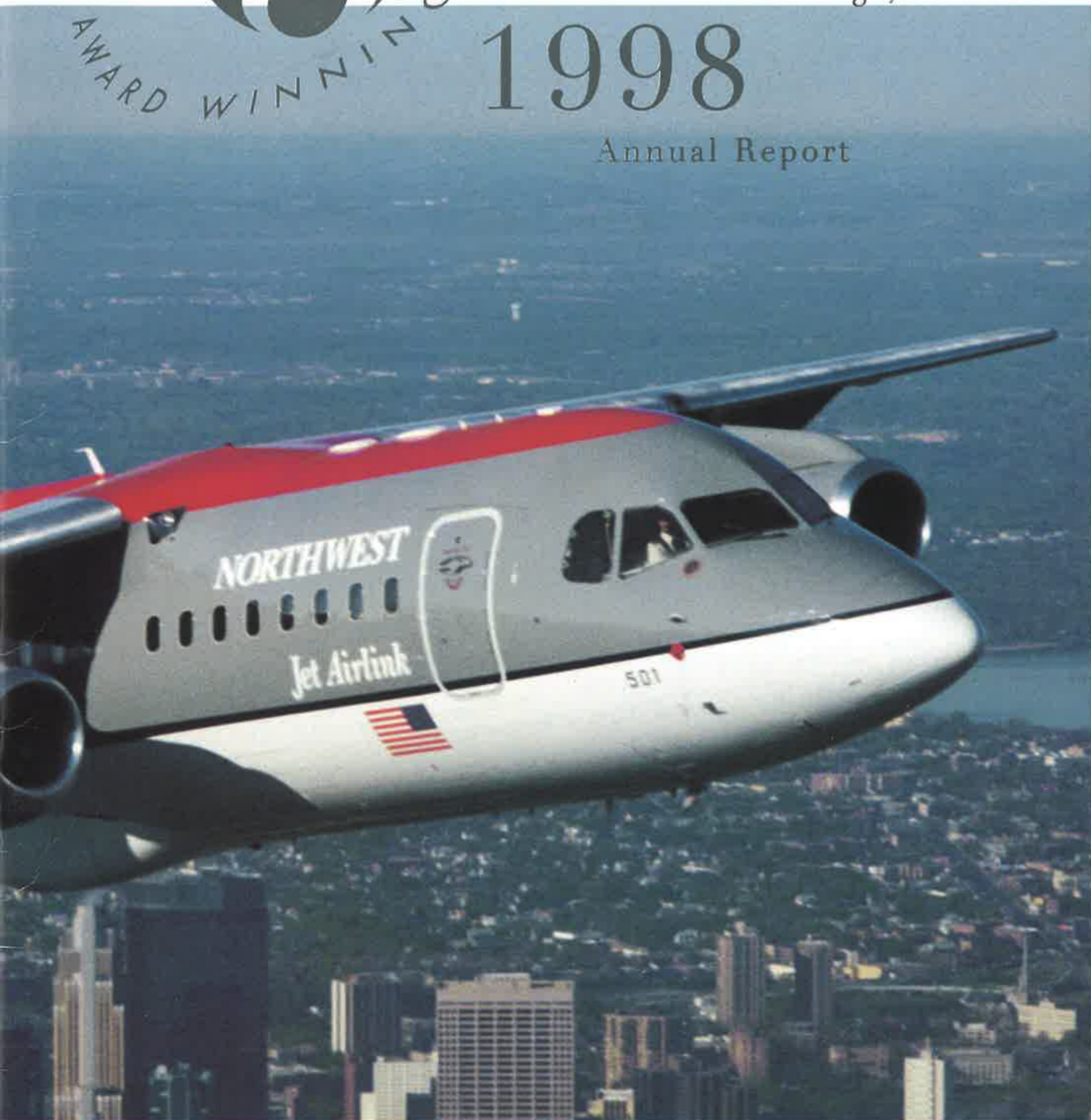
TWENTY-FIVE YEARS
25
AWARD WINNING SERVICE

Mesaba Holdings, Inc.

1998

Annual Report



1973–1998

About Mesaba

Mesaba Airlines is a U.S. domestic air carrier and one of the nation's largest regional airlines. With a fleet of 80 jet and jet-prop aircraft, Mesaba operates more than 700 daily departures to 88 cities in 18 states and Canada. Under agreement with Northwest Airlines, Mesaba has operated as Northwest Airlink since 1984, serving the hub airports of Detroit and Minneapolis/St. Paul. Mesaba Holdings, Inc., the parent company of Mesaba Airlines, is headquartered at the Minneapolis/St. Paul International Airport. Its common stock is traded on the Nasdaq National Market under the symbol MAIR.

Our Vision

By keeping our focus firmly on serving our guests' needs, we will provide safe, reliable, convenient and comfortable air transportation that will set the standard for all regional airlines, while providing a secure and positive work environment for our associates, and a market-driven return on investment for our shareholders.

MESABA AIRLINES

Major Developments

- As we celebrate our 25th year of scheduled passenger service, Mesaba remains focused on it's vision. With a continued commitment to growth and improvement, Mesaba has reached new milestones of success in the past year, confirming our status as a world class regional airline.

- In February 1998, Mesaba Airlines was named Regional Airline of the Year by Air Transport World Magazine, one of the most respected industry publications worldwide. This is the first time in five years that a U.S. based airline has won this distinguished award. In addition, our partner Northwest Airlines and it's alliance partner KLM Royal Dutch Airlines were named Airline of the Year for their pioneering global alliance.

- Mesaba Airlines cargo revenue increased over 49.6% from fiscal 1997 to over $1.6 million.

- Nowhere is Mesaba's commitment to growth more evident than in our state-of-the-art fleet. Mesaba introduced over 24 Saab 340 aircraft and 9 Avro RJ85 aircraft into revenue service during the past year. In March of 1998, Mesaba and Northwest amended their Jetlink Agreement increasing by six the firm commitment for Avro RJ85 regional jets from 12 to 18 units. In addition, 15 deHavilland Dash 8 aircraft were retired, leaving 10 units remaining. These aircraft will be retired by December, 1998.

- A new 10 year Agreement with our partner Northwest Airlines was executed in November 1997. This Agreement continues the successful economic formula we established over two years ago and forms the foundation of our entire jet-prop operation.

- Broadening our access to 21 new markets in 1997, Mesaba's service currently stretches west to Aspen, Colorado, north to Regina, Saskatchewan, east to White Plains, New York and south to Lexington, Kentucky. Our daily departures have increased from 500 daily flights a year ago to over 700.

To our Shareholders

As we celebrate our 25th year of scheduled commercial service, we are pleased to report that fiscal 1998 proved to be a historic year in our airline's operation and financial success.

Last year we declared that fiscal 1998 would be a year of inward focus with the goal of improving our already high levels of service. Imagine our excitement when our efforts were recognized by Air Transport World Magazine as their selection of Regional Airline of the Year. This was a wonderful tribute to our employees for their hard work, but it was also a confirmation that we have one of the best management teams in the regional airline business

Aside from the quality of our service, we sharpened our focus on strengthening operational performance and on methodically executing the business strategy developed over two years ago. Notably, we upgraded our System Operations Control Center which allows us to offer improved operating performance for our entire fleet through enhanced flight and fuel planning.

Additionally, we signed an agreement with Northwest Aerospace Training Corporation for the use of a Saab 340 Level "D" simulator at their Eagan, Minnesota facility. This new facility will allow Mesaba Airlines to offer one of the most professional, efficient and complete training curricula in the industry.

Financial Highlights-Consolidated (in thousands, except per share information)

Fiscal years ended March 31,	1998	1997	1996
Operating Revenues	$277,225	$185,701	$170,455
Operating Expenses	246,856	166,118	158,148
Operating Income	30,369	19,583	12,307
Net Income	19,804	11,986	6,972*
Net Income per Share - Diluted	$0.95	$0.62	$0.40*
Shares Outstanding - Diluted	20,846	19,310	17,534

All amounts adjusted for the 3 for 2 stock split effective April 30, 1998.

*Excludes a $49,303 non-cash gain on the distribution of Airways Corporation.

Statistical Highlights-Mesaba Aviation, Inc. (in thousands, except percentages and unit data)

Fiscal years ended March 31,	1998	1997	1996
Revenue Passengers	3,323	1,962	1,572
Revenue Passenger Miles	805,418	445,871	344,592
Available Seat Miles	1,469,000	864,083	732,018
Passenger Load Factor	54.8%	51.6%	47.1%
Passenger Revenue per Available Seat Miles	$0.186	$0.212	0.204
Operating Cost Per Available Seat Mile	$0.166	$0.192	$0.190

Last year, Mesaba created and implemented an occupational development curriculum to strengthen our supervisor and managerial skills set. With this added investment in our associate group, Mesaba Airlines is poised to meet the challenges of our future growth and deliver award winning service to our expanding traffic base.

By December of this year, Mesaba will complete the phase-out of the deHavilland Dash 8 fleet. This will further reduce training, inventory and maintenance expenses, as well as improve crew scheduling efficiencies. At the same time, we will enhance the operation of our Saab fleet with a new maintenance facility in Rhinelander, Wisconsin. By fiscal year end Mesaba will be one of the largest operators of Saab 340's in the world.

To further improve performance and safety, by year end Mesaba will activate Global Positioning Satellite (GPS) capabilities on our entire Saab fleet. GPS is the most advanced form of enroute navigation system ever developed. And as this system gains greater acceptance, we expect to reduce scheduled route times and further improve on-time reliability for our passengers.

Recently we concluded negotiations with Northwest Airlines for the operation of the final 18 Avro RJ85's on firm order. This brings to 36 the number of aircraft now on firm order with Mesaba. The amended Agreement set forth economic terms substantially equivalent to the first 18 aircraft, and provides Northwest with a warrant to purchase up to 1,435,230 additional shares of Mesaba common stock at an exercise price of $21.25. We will take delivery of 10 units in calendar year 1999 and the last eight units in 2000. This latest Agreement will help to insure our profitable growth into the next century. As we continue to grow our partnership with Northwest Airlines through an increase of RJ85 routes and aircraft, we will expand our RJ85 maintenance capabilities with the opening of a new line maintenance facility and crew base in Cincinnati, Ohio. Mesaba will also look for additional capacity to fund the potential jet-prop expansion opportunities we believe exist in our hubs of Minneapolis/St. Paul and Detroit. Our team is committed to expanding both the RJ85 and Saab jet-prop fleets.

While our long-term future remains bright, we are making contingency plans for any possible labor disturbances that may be experienced by our marketing partner this summer. Clearly, any significant disruption in their service levels would have a dramatic, and potentially negative, impact on our business. Regardless of the short-term implications of such an event, Mesaba remains a strong, well-capitalized business and we are prepared to weather any summer storms.

Over the course of the coming year, Mesaba will continue to strive to raise the benchmark within the regional airline industry by consistently improving upon our product through the development of our people and programs.

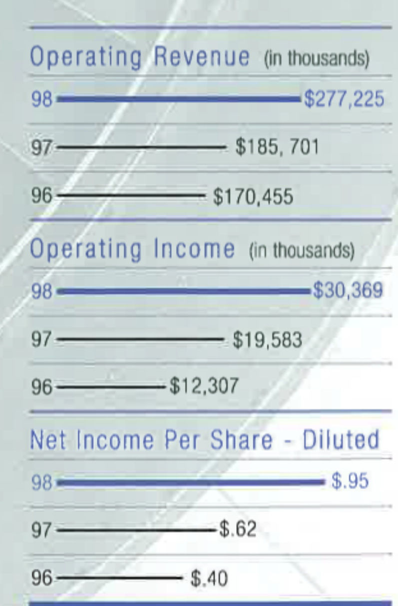
As always we would like to thank our shareholders for their continued support and confidence, our partner Northwest Airlines and the over 2500 aviation professionals that comprise Mesaba Airlines.

Sincerely,

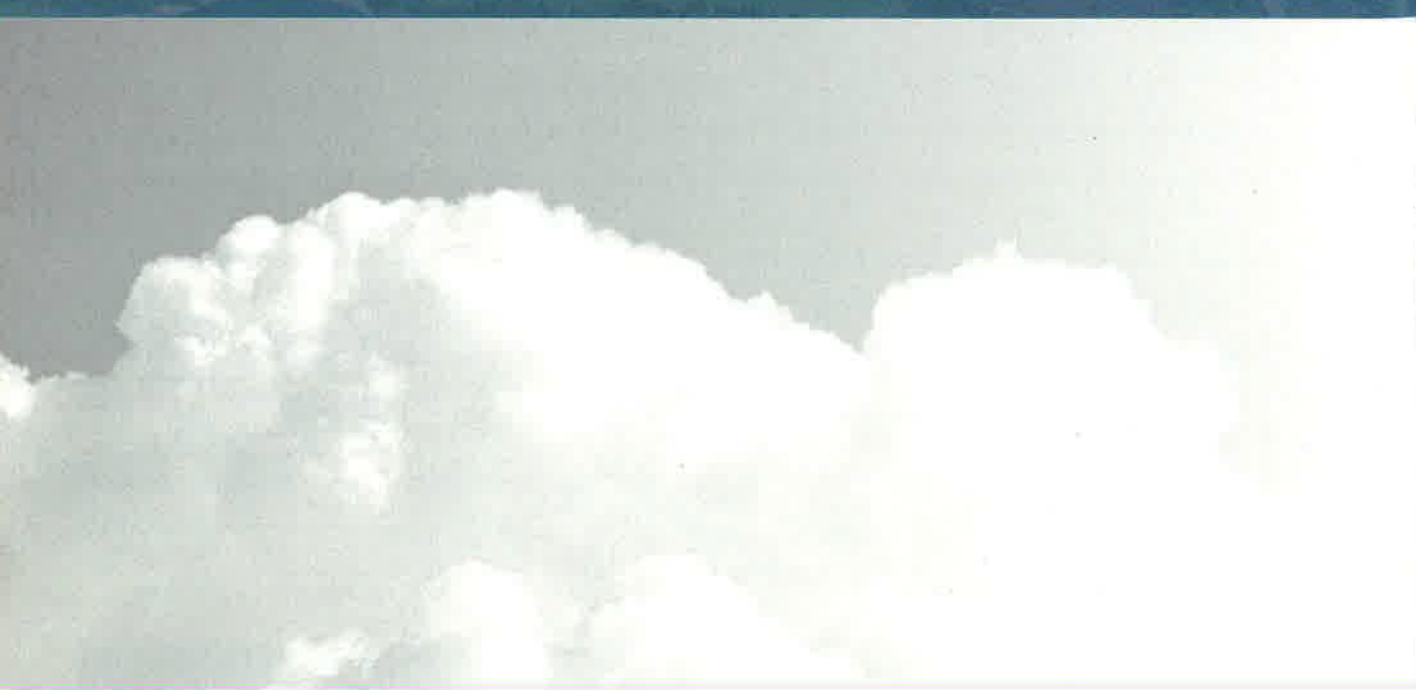
Carl R. Pohlad
Chairman of the Board

Bryan K. Bedford
President & Chief Executive Officer

June 22, 1998



TWENTY-FIVE YEARS 25 AWARD WINNING SERVICE



1998 marks Mesaba Airline's 25th year of scheduled commercial service. To commemorate this historic occasion, two custom designed Saab 340Bs will serve a variety of Mesaba destinations throughout the year. Aptly named the Silver City Flyers in celebration of our Silver Anniversary, these aircraft are a reminder of Mesaba's growth and success, as well as an indication of the many milestones we intend to reach in the future.

An Airline to Call Your Own℠

Fleet

Our goal to provide a modern, cabin-class product continues to be realized with the delivery of 62 Saab 340's and 14 Avro RJ85's.

The speed and comfort of the RJ85 have allowed Mesaba to expand our operating area in a 1600 mile radius from its Minneapolis/St. Paul and Detroit hubs. The airline has now extended service to the east coast and performs well in these demanding business markets. Recently negotiated Agreements with Northwest Airlines for an additional 24 Avro RJ85 regional jets brings the total number of RJ85's under firm contract with Mesaba to 36.

Continuing the transition to a completely modern fleet, the airline has retired all 26 Fairchild Metro III and 15 deHavilland Dash 8 aircraft.

"I believe our mix of state-of-the-art jet-prop aircraft and regional jets enables us to offer a product which passengers appreciate and that we can be proud of."

Captain Ron J. Losasso
Detroit Based

Saab 340

The remaining 10 Dash 8 aircraft will be retired by December 1998, completing the entire jet-prop fleet transition.

Our extensive research in choosing the Saab 340 has certainly paid off. The performance of the Saab fleet has met our expectations and received excellent reviews from our passengers. In an effort to always improve, we are currently developing a new Saab maintenance facility in Rhinelander, Wisconsin. With four additional aircraft moving into maintenance rotation each night, Mesaba can maintain the strong reliability of our fleet as we continue to grow. Adding flexibility to our expanding network, Rhinelander will be a fully operational maintenance facility and base for flight crews by the summer of 1998.

The addition of larger aircraft has also resulted in significant growth in cargo revenue for Mesaba. This year we plan to increase cargo revenues from our jet-prop markets by 35%, specifically through further development of our counter to counter product.

Avro RJ85

1997 Regional Airline of the Year

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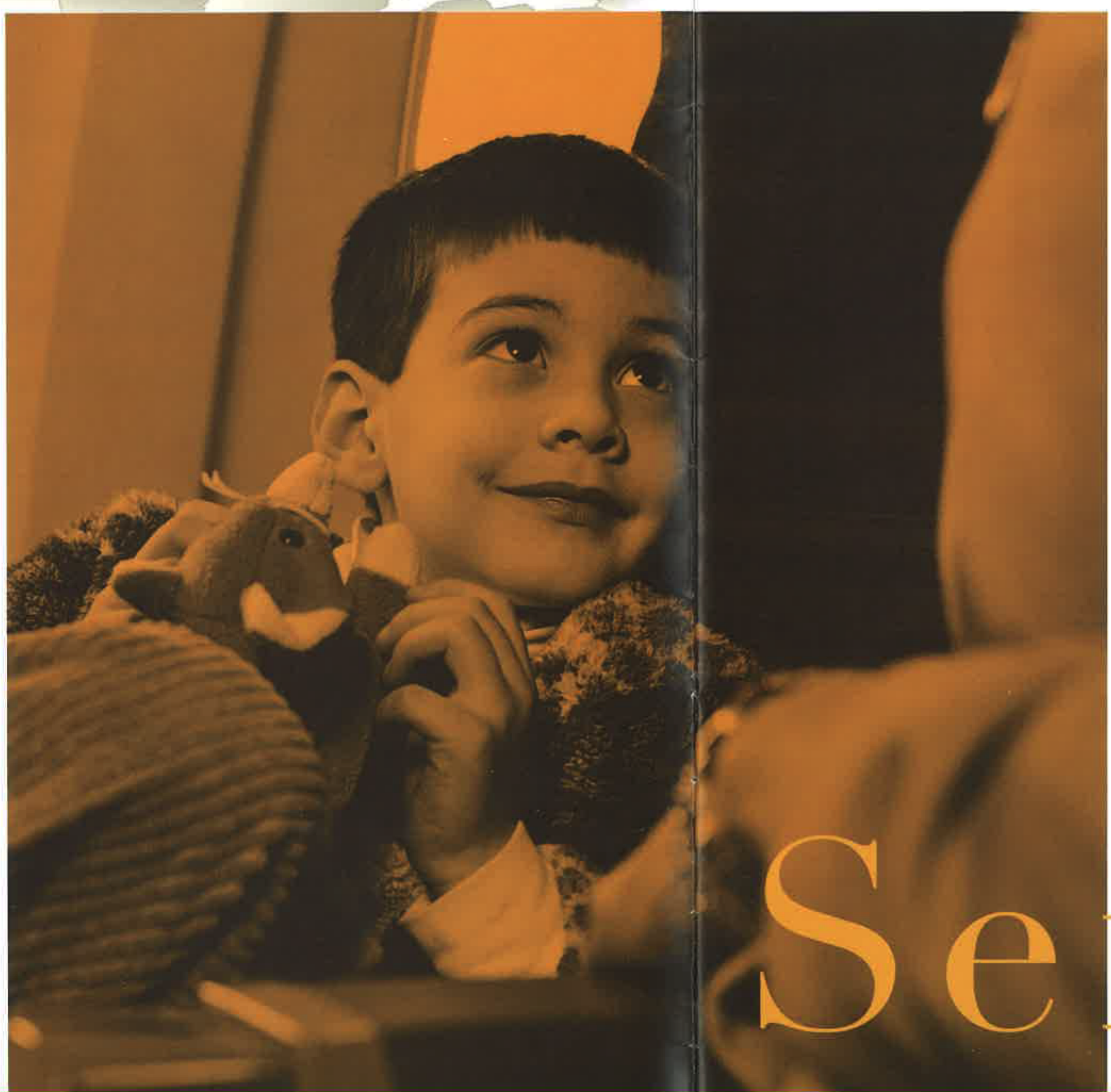
In February of 1998 Mesaba Airlines was honored with the prestigious "Regional Airline of the Year" award by Air Transport World Magazine. This selection is a testament to our dedicated professionals who provide the service which is setting the industry standard.

We also congratulate our partner Northwest Airlines and it's alliance partner KLM Royal Dutch Airlines for winning Air Transport World's Airline of the Year award in recognition of their pioneering, global aviation alliance.



"I feel like family because of the way your people have treated me and this is the main reason I will continue to fly Mesaba."

Mr. Skip Sarazin
Regional Risk Control Supervisor
Bituminous Insurance Companies

We are always challenging ourselves to offer the safest, most reliable, most convenient and comfortable product to our passengers. The attitude of our people and their genuine care about the safety and comfort of each passenger makes traveling on Mesaba a truly distinctive experience. In each and every aspect Mesaba continues to earn it's position as an Airline to Call Your Own. With more than 700 flights daily to over 88 cities in the U.S. and Canada, the Mesaba fleet offers one of the most efficient air-travel systems in the world. With seamless connections to Northwest Airlines' route network and its global alliance partner KLM Royal Dutch Airlines, the millions of people we serve have access to more than 480 cities in over 80 countries on six continents.

We provide the service that is setting the industry standard.

We are committed to our partnership with Northwest Airlines. By continuing to provide award winning service, and attaining a market leadership position, we will strive to generate competitive returns for our investors.

Service

Team

One of the most critical aspects to the success of our company is the Mesaba team. Today Mesaba employs over 2,500 of the most highly trained, aviation professionals in the industry.

By placing the safety and comfort of our guests first and by continuously developing and refining our operation and quality of service, we are raising the benchmark in the regional airline industry.

Our employees make the difference in our airline. Mesaba employs over 2500 of the best trained aviation professionals.

The Spectrum award, now in its second year, recognizes Mesaba associates who strive for excellence in everything they do. Every quarter our associates nominate over 300 fellow employees for 30 awards. It's an opportunity for our team to honor those workers that are making a difference every day. Every year, Spectrum award winners celebrate their achievements at an awards banquet in Minneapolis. At the same time, we honor all of our associates who have contributed over 10 years of service to Mesaba. Several hundred of our associates will be recognized this summer. This level of experience is critical to our airline's success and provides a strong example for newer associates to build upon.

Spectrum Award

FINANCIAL CONDITION AND RESULTS OF OPERATION (As used herein, "unit cost" means operating cost per available seat mile. Dollars and shares outstanding are expressed in thousands)

Earnings Summary

The Company reported net income of $19.8 million or $0.95 per share for the fiscal year ended March 31, 1998, compared to $12.0 million or $0.62 per share in fiscal 1997 and $56.3 million or $3.21 per share in fiscal 1996. The fiscal 1996 net earnings included a non-taxable $49.3 million gain resulting from the spin-off of Airways Corporation ("Airways"). Fiscal 1996 net income per share without the gain was $.40 including a $.01 contribution from Airways. Weighted average shares outstanding (diluted) increased to 20.8 million in the current year from 19.3 million and 17.5 million respectively. The increase in the average number of shares outstanding was due primarily to the dilutive effect of the issuance of warrants to Northwest and the exercise of stock options by current and former employees. Earnings per share and weighted average shares outstanding for fiscal 1998, 1997 and 1996 have been adjusted to reflect a three-for-two stock split in the form of a 50% stock dividend declared by the Board of Directors on April 6, 1998 for shares held of record on April 17, 1998.

Results of Operations

Operating Revenues.

Operating revenues rose 49.3% to $277.2 million in fiscal 1998 from $185.7 million in fiscal 1997 and $170.5 million in fiscal 1996. Operating revenues for fiscal 1996 included revenues from Airways of $18.7 million. Passenger revenue per available seat mile ("RASM") decreased 12.3% to $0.186 from $0.212 and $0.204 respectively, primarily due to the introduction of the higher capacity RJ85 aircraft. Mesaba's average passenger load factor was 54.8% in 1998, up from 51.6% in 1997 and 47.1% in 1996. The improvement in traffic and load factor are attributable to the introduction of 10 RJ85 aircraft and the expanded jet-prop activity at the Minneapolis/St. Paul airport as well as overall increases in passenger demand within the industry.

Operating Expenses.

Total operating expenses increased 48.6% to $246.9 million in 1998 from $166.1 million in 1997 and $158.1 million in 1996. Operating expenses for 1996 included expenses from Airways of $18.7 million. Mesaba experienced a 12.5% decrease in the cost per available seat mile ("CASM") to 16.8 cents compared with 19.2 cents in 1997. Seat capacity (measured in ASMs) increased 70.0% in 1998 to 1,469.0 million primarily as a result of the introduction of 10 RJ85 aircraft in total, and the increased activity at the Minneapolis/St. Paul airport. Mesaba took delivery of 31 additional Saab 340 aircraft during fiscal 1998. Mesaba has taken delivery of 20 Saab 340A and 35 340BPlus aircraft, 54 of which were in revenue service at March 31, 1998. The following table compares components of Mesaba's operating cost per ASM for the years ended March 31, 1998, 1997 and 1996:

	1998	1997	1996
Wages and benefits	4.6¢	5.8¢	6.0¢
Fuel	1.7	2.1	2.0
Direct maintenance	2.9	2.9	2.4
Rents	3.4	3.6	4.1
Wet lease	0.5	-	-
Landing fees	0.4	0.6	0.5
Insurance and taxes	0.5	0.6	0.7
Depreciation and amortization	0.4	0.5	0.6
Other	2.4	3.1	2.7
Total	16.8¢	19.2¢	19.0¢

Wages and benefits increased to $67.2 million in fiscal 1998 compared to $49.9 million in fiscal 1997 and $47.0 million in 1996. Wages and benefits for 1996 included expenses from Airways of $3.1 million. However the increased capacity generated by the additional jet and jet-prop equipment has caused these costs to be reduced on a unit cost basis 20.7% to 4.6 cents from 5.8 cents. The overall dollar increase is a result of increased cost of flight crews due to a 31.4% increase in block hours flown and the addition of flight crews to support the introduction of the RJ85 aircraft as well as continued costs to support the Saab fleet transition program. Mesaba also experienced an increase in wage and benefit cost of support personnel due to an increase in scheduled operations. Overall, personnel levels (measured on a full time equivalent basis at the fiscal year end) increased 44.6% to approximately 2,503 from 1,731, with the remaining increase due to normal wage and benefit increases.

Total fuel costs increased to $25.0 million in fiscal 1998 from $17.9 million in fiscal 1997 and $17.8 million in fiscal 1996. Airways total fuel expense was $2.9 million in 1996. The increase is attributable to a 37.5% increase in consumption. The average price per gallon, including taxes and into plane fees, was 83.5 cents in both fiscal 1998 and fiscal 1997 and 80.3 cents in fiscal 1996. Certain provisions of the Airlink Agreement protect Mesaba from future increases in fuel prices. Unit cost decreased 19.0% to 1.7 cents from 2.1 cents. Mesaba is not required to provide fuel for the jet operation.

Direct maintenance expense, excluding wages and benefits costs, increased to $42.2 million in fiscal 1998 from $25.0 million in fiscal 1997 and $20.0 million in fiscal 1996. Airways' direct maintenance expense was $2.2 million in 1996. This increase was attributable to the addition of 10 RJ85, seven Saab 340A and 24 Saab 340BPlus aircraft to the fleet when compared to one year ago. This increase was partially offset by lower costs associated with the Metro III fleet due to the final eight aircraft having been removed from service and returned to lessors. On a unit cost basis the cost was unchanged year over year.

Aircraft rentals were $49.5 million in fiscal 1998, $31.2 million in fiscal 1997 and $31.3 million in fiscal 1996. Airways' aircraft rentals were $1.5 million in fiscal 1996. Mesaba added 10 RJ85, seven Saab 340A and 24 Saab 340BPlus aircraft during the period and returned eight Metro III and 12 Dash 8 aircraft to lessors. However, unit costs decreased 5.6% to 3.4 cents from 3.6 cents.

Wet lease expense was $7.7 million in fiscal 1998 which was a result of the expanded activity out of the Minneapolis/St. Paul hub. The wet lease terminated on January 31, 1998. Mesaba incurred no prior wet lease expense.

Landing fees were $6.3 million in fiscal 1998, $4.8 million in fiscal 1997 and $4.5 million in fiscal 1996. Airways' landing fees were $0.5 million in fiscal 1996. The increase is attributable to a 23.4% increase in jet-prop departures and an increase in the average gross landing weight due to the changing mix of aircraft. This increase was partially offset by a slight decrease in the overall effective landing fee rate. Unit cost decreased 33.3% to 0.4 cents from 0.6 cents. Mesaba is not required to pay landing fees for wet lease or jet aircraft.

Insurance and taxes were $6.8 million in fiscal 1998, $5.3 million in fiscal 1997 and $5.9 million in fiscal 1996. Airways' costs were $1.0 million in fiscal 1996. This is due primarily to an increase in passenger liability insurance associated with increased passenger volume and an increase in property taxes and hull insurance caused by increasing fleet values associated with the Saab 340 (compared to Metro III aircraft) and RJ85 aircraft offset by a reduction in passenger liability and hull insurance rates. Due to the additional capacity generated by the jet and jet-prop equipment, unit cost decreased 16.7% to 0.5 cents from 0.6 cents.

Depreciation and amortization totaled $6.5 million in fiscal 1998 compared to $4.3 million in fiscal 1997 and $4.9 million in fiscal 1996. Airways' depreciation and amortization totaled $0.6 million in 1996. The increase in Mesaba's depreciation and amortization resulted primarily from the acquisition of spare parts to support the RJ85 and Saab 340 fleet. Generally, acquisition of spare parts for the Saab fleet are non-cash expenditures funded by credits issued by the aircraft manufacturer. In October 1996, the Company paid a contract rights fee in the form of a stock purchase warrants to Northwest as part of the Regional Jet Services Agreement. Contract rights are being amortized on a straight-line basis over the minimum term of the Jet Agreement through October 2002. In June 1997, the Company paid a contract rights fee in the form of stock purchase warrant to Northwest as a part of the new Airlink Agreement. These contract rights are being amortized on a straight-line basis over the term of the agreement through June 2007. The increased amortization was partially offset by a reduction in warrant amortization related to previous warrants issued to Northwest that were fully amortized as of March 1997. Unit costs decreased 20.0% to .4 cents from .5 cents.

Administrative and other costs totaled $35.7 million in fiscal 1998, $27.8 million in fiscal 1997 and $27.3 million in fiscal 1996. Airways' administrative and other costs were $6.7 million in 1996. This increase is primarily attributable to higher crew related expenses due to increased flying and training to support the RJ85 and Saab 340 fleet transition program. Additionally, higher passenger and airport related expenses were incurred due to increases in traffic and the number of cities served. Unit cost decreased 22.6% to 2.4 cents from 3.1 cents. Mesaba is generally not required to provide airport and passenger related expenses for the jet operation.

Operating Income

The Company's operating income was $30.4 million in fiscal 1998, $19.6 million in fiscal 1997 and $12.3 million in fiscal 1996. Mesaba's operating margins were 11.0% in 1998, 10.5% in 1997 and 7.2% in 1996.

Nonoperating Income

Nonoperating income was $2.6 million in fiscal 1998, $1.1 million in fiscal 1997 and $0.3 million (not including the one-time non-taxable gain of $49.3

million on the spin-off of Airways) in fiscal 1996. Interest income increased $0.6 million to $3.0 million from $1.6 million.

Provision for Income Taxes

The provision for income taxes was $13.1 million in fiscal 1998, $8.7 million in fiscal 1997 and $5.7 million in fiscal 1996. The effective tax rate decreased to 39.9% in 1998 from 42.1% in 1997 and 44.8% (not including the gain on distribution which is not taxable) in 1996. This decrease is due primarily to the lower level of nondeductible expenses as a percentage of taxable income.

Liquidity and Capital Resources

The Company's working capital increased to $51.7 million with a current ratio of 2.2 at March 31, 1998 compared to $37.8 million and 2.1 at March 31, 1997. Cash and short-term investments increased by $17.4 million to $66.6 million at March 31, 1998. Net cash flows provided by operating activities totaled $30.0 million in fiscal 1998 compared to $23.4 million in fiscal 1997. Net cash flows provided by financing activities amounted to $0.7 million in fiscal 1998 and consisted of principal payments of $0.4 million offset by $1.1 million in proceeds from the exercise of stock options by current and former employees.

The Company has an approved $5.0 million unsecured revolving line of credit. This credit line was not utilized during fiscal 1998. In addition, the Company maintains a letter of credit facility totaling $0.2 million which secures a lease commitment to the County of Wayne, Michigan for the Company's Detroit hangar.

Long term debt, net of current maturities, totaled $4.8 million at March 31, 1998 and $5.2 million as of March 31, 1997. Long term debt consists principally of capitalized lease financing for the Minneapolis/St. Paul and Detroit hangar facilities. The ratio of long term debt to stockholders' equity was .06 at March 31, 1998 compared to .10 at the end of fiscal 1997.

As of June 1998, Mesaba's fleet consisted of 86 aircraft covered under operating leases with remaining terms of two months to 16 years and aggregate monthly lease payments of approximately $5.0 million. Operating leases have been the Company's primary method for acquiring aircraft, and management expects to continue relying on this method to meet most of its future aircraft financing needs. Mesaba has negotiated a financing agreement with the airframe manufacturer whereby operating lease financing for both used and new Saab 340 aircraft are committed to the Company on competitive rates and terms.

Approximately 79% of Mesaba's passengers connected with Northwest in fiscal 1998, 72% in 1997 and 71% in 1996. Approximately 98% of the Company's accounts receivable balance at March 31, 1998 is due from Northwest. Loss of the Company's affiliation with Northwest or Northwest's failure to make timely payment of amounts owed to the Company or to otherwise materially perform under the Airlink Agreement for any reason would have a material adverse effect on the Company's operations and financial results.

The Company has historically relied upon cash reserves and internally generated funds to support its working capital requirements. Management believes that funds from operations and existing cash balances will provide adequate resources for meeting non-aircraft capital needs in fiscal 1999.

Other Information

On April 1, 1998 the Company signed an amendment to the Jet Agreement with Northwest providing for the delivery of six additional RJ85 aircraft. As consideration for the additional jets, the Company issued a warrant to Northwest for the purchase of 474,192 shares of the Company's common stock at an exercise price of $21.25 per share. The warrant expires on October 25, 2006.

On June 2, 1998 the Company signed an Agreement with Northwest to fly 18 additional RJ85 aircraft. As consideration for the additional jets, the Company issued a warrant to Northwest for the purchase of 1,435,230 shares of the Company's common stock at an exercise price of $21.25 per share. The warrant expires on October 25, 2006.

The Company has implemented a Year 2000 compliance program designed to ensure that the Company's computer systems and applications will function properly beyond 1999. The Company believes that it has allocated adequate resources for this purpose and expects its Year 2000 date conversion program to be completed on a timely basis. The company does not expect to incur significant costs related to enhancements necessary to prepare its system for the Year 2000. The Company is in the process of assessing Year 2000 compliance by significant vendors. This assessment is incomplete, but management is not aware of any Year 2000 issues that would materially adversely affect operations or results thereof.

Report of Independent Public Accountants

To Mesaba Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Mesaba Holdings, Inc. (a Minnesota corporation) and Subsidiary as of March 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998. 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 conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mesaba Holdings, Inc. and Subsidiary as of March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
May 8, 1998

Consolidated Balance Sheets

Mesaba Holdings, Inc. and Subsidiary

Assets (in thousands, except share information)

Fiscal years ended March 31,	1998	1997
Current Assets		
Cash and cash equivalents	$ 66,554	$ 49,126
Accounts receivable, net	13,610	13,344
Inventories	5,547	2,077
Prepaid expenses and deposits	3,788	3,054
Deferred income taxes	4,702	3,600
Total current assets	94,201	71,201
Property and Equipment		
Facilities under capital lease	9,147	9,147
Flight equipment	22,449	18,655
Other property and equipment	16,865	12,008
Accumulated depreciation and amortization	(16,364)	(20,038)
Net Property and equipment	32,097	19,772
Other Assets (net)	$ 10,893	13,593
	$137,191	$104,566

Liabilities and Shareholders' Equity (in thousands, except per share information)

	1998	1997
Current Liabilities		
Current maturities of capital lease obligations	$ 436	$ 425
Accounts payable	18,093	11,932
Accrued liabilities		
Payroll	9,362	6,589
Maintenance	6,877	7,469
Other	7,741	6,978
Total current liabilities	42,509	33,393
Capital lease obligations, net of current maturities	4,751	5,194
Other noncurrent liabilities	14,385	16,185
Commitments and contingencies (Note 6)		
Shareholders' Equity		
Common stock, $.01 par value, 25,000,000 shares authorized; 19,397,523 and 19,176,069 shares issued and outstanding, respectively	194	192
Paid in capital	41,196	40,050
Warrants	7,900	3,100
Retained earnings	26,256	6,452
Total shareholders' equity	75,546	49,794
	$137,191	$104,566

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Operations

Mesaba Holdings, Inc. and Subsidiary

(in thousands, except per share information)

Fiscal years ended March 31,	1998	1997	1996
Operating Revenues			
Passenger	$273,973	$183,409	$166,900
Freight and other	3,252	2,292	3,555
Total operating revenues	277,225	185,701	170,455
Operating Expenses			
Wages and Benefits	67,194	49,850	47,000
Aircraft fuel	24,983	17,850	17,795
Aircraft maintenance	42,172	25,012	19,518
Aircraft rents	49,500	31,242	31,330
Wet Lease	7,735	-	-
Landing fees	6,330	4,770	4,474
Insurance ad taxes	6,761	5,307	5,886
Depreciation and amortization	6,500	4,265	4,854
Other	35,681	27,822	27,291
Total operating expenses	246,856	166,118	158,148
Operating Income	30,369	19,583	12,307
Nonoperating (Expense) Income			
Interest expense	(458)	(511)	(1,441)
Interest income and other	3,022	1,641	1,761
Gain on distribution of subsidiary	-	-	49,303
Income before income taxes	32,933	20,713	61,930
Provision for income taxes	13,129	8,727	5,655
Net Income	$ 19,804	$ 11,986	$ 56,275
Earnings per common share—Basic	$ 1.02	$ 0.63	$ 3.34
Weighted average shares outstanding	19,270	19,143	16,857
Earnings Per Common Share - Diluted	$ 0.95	$ 0.62	$ 3.21
Weighted Average Number of Common Shares Outstanding and Common Share Equivalents Outstanding	20,846	19,310	17,534

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Shareholder's Equity

Mesaba Holdings, Inc. and Subsidiary

(in thousands, except share and per share information)

Fiscal years ended March 31,

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Warrants Shares	Warrants Amount	Retained Earnings	Total Shareholders' Equity
BALANCE, March 31, 1995	12,938,059	$ 129	$ 13,156	2,248,617	$ 5,089	$ 24,070	$ 42,444
Stock Dividend	3,078,413	31	12,796	-	-	(12,827)	-
Exercise of stock options, net of related tax effects	838,980	8	4,262	-	-	-	4,270
Exercise of warrants	2,248,617	22	9,545	(2,248,617)	(5,089)	-	4,478
Distribution of Subsidiary	-	-	-	-	-	(72,531)	(72,531)
Dividends paid on common stock ($.06 per common share)	-	-	-	-	-	(521)	(521)
Net income						56,275	56,275
BALANCE, March 31, 1996	19,104,069	$ 190	$ 39,759	-	-	$ (5,534)	34,415
Issuance of warrants	-	-	-	922,500	3,100	-	3,100
Exercise of stock options, net of related tax effects	72,000	2	291	-	-	-	293
Net income	-	-	-	-	-	11,986	11,986
BALANCE, March 31, 1997	19,176,069	$ 192	$ 40,050	922,500	$ 3,100	$ 6,452	$ 49,794
Issuance of warrants	-	-	-	1,320,000	4,800	-	4,800
Exercise of stock options, net of related tax effects	221,184	2	1,146	-	-	-	1,148
Net income	-	-		-	-	19,804	19,804
BALANCE, March 31, 1998	19,397,253	$ 194	$ 41,196	2,242,500	$ 7,900	$ 26,256	$ 75,546

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Cash Flows

Mesaba Holdings, Inc. and Subsidiary

(in thousands)

Fiscal years ended March 31,	1998	1997	1996
Operating Activities			
Net income	$ 19,804	$ 11,986	$ 56,275
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on distribution of subsidiary	-	-	(49,303)
Depreciation and amortization	6,500	4,265	4,854
Deferred income taxes	(819)	(2,228)	293
Change in current operating items:			
Accounts receivable, net	(266)	(4,090)	(1,310)
Inventories	(1,835)	(411)	164
Prepaid expenses and deposits	(734)	(280)	(4,174)
Accounts payable and other	7,305	14,117	9,311
Net cash flows provided by operating activities	29,955	23,359	16,110
Investing activities:			
Purchases of property and equipment, net	(13,418)	(3,301)	(4,127)
Increase in other assets	175	(215)	-
Decrease in other liabilities	-	(4)	(4)
Net cash flows used for investing activities	(13,243)	3,520)	(4,131)
Financing activities:			
Proceeds from issuance of debt	-	-	300
Distribution of subsidiary	-	-	(21,372)
Distribution of restricted cash of subsidiary	-	-	3,765
Repayment of capital lease obligations	(432)	(434)	(322)
Proceeds from issuance of common stock	1,148	293	8,748
Dividends paid	-	-	(521)
Net cash flows provided by financing activities	716	(141)	(9,402)
Net increase in cash and cash equivalents	17,428	19,698	2,577
CASH AND CASH EQUIVALENTS:			
Beginning of year	49,126	29,428	26,851
End of year	$ 66,554	$ 49,126	$ 29,428
SUPPLEMENTARY CASH FLOW INFORMATION:			
Cash paid during the year for-			
Interest	$ 458	$ 511	$ 555
Income taxes	$ 15,169	$ 7,948	$ 5,296

The accompanying notes are an integral part of these consolidated balance sheets.

(in thousands, except share and per share information)

1. Corporate Organization and Business:

Corporate Organization

The consolidated financial statements include the accounts of Mesaba Holdings, Inc. (the "Company") and its subsidiary, Mesaba Aviation, Inc. ("Mesaba"). The statements also include the results of operations of Airways Corporation ("Airways") and its subsidiary Airtran Airways, Inc. ("Airtran Airways") prior to the distribution of 100% of the outstanding common stock of Airways to the Company's shareholders in September 1995 (see Note 10). All significant intercompany balances have been eliminated in consolidation.

Business

The Company operates a regional air carrier providing scheduled passenger and air freight service as Mesaba Airlines/Northwest Airlink under an Airline Services Agreement (the "Airlink Agreement") with Northwest Airlines, Inc. ("Northwest") to 88 cities in the Upper Midwest from Northwest's hub airports, Minneapolis/St. Paul and Detroit. The Airlink Agreement provides for exclusive rights to designated service areas and extends through June 30, 2007, automatically renewing indefinitely thereafter. Northwest may terminate the Airlink Agreement on 365 days notice any time after June 30, 2000. Under the Airlink Agreement, all Mesaba flights appear in Northwest's timetables and Mesaba receives ticketing and certain check-in, baggage and freight-handling services from Northwest at certain airports. In addition, at certain airports Mesaba purchases fuel from Northwest. The Company paid $17,963 to Northwest for fuel, reservation systems, ground handling and other services in fiscal 1998, $16,611 in 1997 and $7,526 in 1996. The Airlink Agreement provides for certain incentive payments from Northwest to Mesaba based on achievement of certain operational or financial goals, as defined. Such incentives totaled $4,297 in 1998, $1,960 in 1997, and $1,643 in 1996. Mesaba also benefits from its relationship with Northwest through advertising and marketing programs. Mesaba and Northwest entered into a Regional Jet Services Agreement, dated October 25, 1996 (the "Jet Agreement"), under which Mesaba will operate 12 Avro/Al(R) RJ85 ("RJ85") regional jets for Northwest. The aircraft will be subleased from Northwest and will be operated as Northwest Jet Airlink from Minneapolis/St. Paul and Detroit hubs according to routes and schedules determined by Northwest. Jet service began in June, 1997. Approximately 79% of Mesaba's passengers connected with Northwest in fiscal 1998, 72% in 1997 and 71% in 1996. Approximately 98% of the March 31, 1998 accounts receivable balances in the accompanying consolidated balance sheet are due from Northwest. The Company believes that Northwest's Minneapolis and Detroit hubs will continue to serve as key air traffic centers. Although Mesaba maintains an expanding air system serving those traffic centers, loss of Mesaba's affiliation with Northwest or Northwest's failure to make timely payment of amounts owed to the Company or to otherwise materially perform under the Airlink Agreement would have a material adverse effect on the Company's operations, financial position and cash flows. Northwest and the Company review contract compliance on a periodic basis.

The Company has implemented a Year 2000 compliance program designed to ensure that the Company's computer systems and applications will function properly beyond 1999. The Company believes that it has allocated adequate resources for this purpose and expects its Year 2000 date conversion program to be completed on a timely basis. The company does not expect to incur significant costs related to enhancements necessary to prepare its system for the Year 2000. The Company is in the process of assessing Year 2000 compliance by significant vendors. This assessment is incomplete, but management is not aware of any Year 2000 issues that would materially adversely affect operations or results thereof.

2. Summary of Significant Accounting Policies:

Cash and Cash Equivalents

Cash equivalents consist primarily of U.S. government securities and interest-bearing deposits with maturities of less than 90 days and are stated at cost, which approximates market.

Inventories

Inventories are stated at the lower of average cost or market and consist of expendable aircraft service parts and fuel. Expendable parts are charged to maintenance as used.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis for financial reporting purposes over estimated useful lives of 5-10 years for aircraft engines, flight equipment and rotable parts; 3-10 years for all other equipment; 5-36 years for buildings and improvements; and over the lease term for facilities under capital lease. Leasehold improvements are amortized over the shorter of the life of the lease or the life of the asset. Accelerated cost recovery methods of depreciation are applied for tax reporting purposes.

Contract Rights

In connection with the Jet Agreement, the Company paid a contract rights fee in the form of a stock purchase warrant to Northwest. Contract rights and related other assets totaled $3,100 and related accumulated amortization totaled $689 and $172 at March 31, 1998 and 1997 respectively. Contract rights are amortized on a straight-line basis over six years to coincide with the minimum term of the Jet Agreement. In connection with the Airlink Agreement, the Company paid a contract rights fee in the form of a stock purchase warrant to Northwest. Contract rights and related other assets totaled $4,800 and related accumulated amortization totaled $360 at March 31, 1998. Contract rights are amortized on a straight-line basis over 10 years to coincide with the term of the Airlink Agreement.

Revenue Recognition

Passenger revenues are recorded as income when the respective services are rendered.

Frequent Flyer Awards

As a Northwest Airlink carrier, Mesaba participates in Northwest's frequent flyer program (WorldPerks®), and passengers may use mileage accumulated in that program to obtain discounted or free trips that might include a flight segment on one of Mesaba's flights. However, under the Airlink Agreement, Northwest is responsible for the administration of WorldPerks, and Mesaba receives revenue from Northwest for WorldPerks travel awards redeemed on Mesaba flight segments.

Income Taxes

The Company accounts for income taxes under the liability method whereby deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities . These differences will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Income Per Share

Statement of Financial Accounting Standards No. 128, "Earnings per Share," requires presentation of "Basic" and "Diluted" earnings per share amounts, as defined. "Basic" earnings per share replaces primary earnings per share under APB Opinion No. 15, and excludes the dilutive effects of options, warrants and convertible securities, if any, from the calculation. Fully diluted earnings per share has not changes significantly but has been named "Dilutive" earnings per share. Statement No. 128 became effective for fiscal years ending after December 15, 1997. All earnings per share prior to 1997 have been restated to comply with this Statement.

Other Assets

In order to assist the Company in integrating new aircraft into its fleet, certain manufacturers provide the Company with spare parts or other credits. The Company has deferred these amounts and amortizes them over the terms of the related aircraft leases as a reduction of rent expense. Amortization expense of $1,071 and $298 was recorded during the year ended March 31, 1998 and 1997 respectively. The Company periodically evaluates whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of its long-lived assets. If such events or circumstances were to indicate that the carrying amount of these assets would not be recoverable, the Company would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) were less than the carrying amount of the intangible assets, the Company would recognize an impairment loss.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

Reclassifications

Certain balances in the fiscal 1997 consolidated financial statements have been reclassified to conform with the fiscal 1998 presentation. These reclassifications had no impact on net income or shareholders' equity as previously reported.

Recent Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information." Statement No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements for periods beginning after December 15, 1997. The Statement requires business segment financial information be reported in the financial statements utilizing the management approach. The management approach is defined as the manner in which management organizes the segments within the organization for making operating decisions and assessing performance. Management believes that the adoption of Statement No. 131 will not have a material impact on the financial statements. In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income, as defined, and its components in financial statements issued for fiscal years beginning after December 15, 1997. Management believes that the adoption of Statement No. 130 will not have a material impact on the financial statements. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages companies to recognize expense for stock-based awards on their fair-value on the date of grant. At a minimum, Statement No. 123 requires pro forma disclosures beginning with the Company's 1996 financial statements. The Company elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations and provide the necessary disclosures required by Statement No. 123, rather than adopt the expense recognition provisions of this Statement. Statement of Financial Accounting Standards No. 121, "accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted Statement No. 121 in the first quarter of 1996 and the effect of adoption was not significant.

During April 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities", SOP 98-5 requires companies to expense as incurred all start-up costs that are not otherwise capitalizable as long-lived assets. The Company will elect to implement the accounting standard during the first quarter of fiscal 1999. Had the company adopted the accounting standard during the fourth quarter of fiscal 1998, the effect of the accounting change would have been to charge to operations the unamortized balance of start-up costs as of March 31, 1998 of $780, net of $520 of related tax benefit in the accompanying statements of operation.

3. Flight Equipment:

The Company's airline fleet consisted of the following aircraft held under operating leases as of March 31, 1998:

Number of Aircraft	Type of Aircraft	Seating Capacity
55	Saab 340	30/34
13	de Havilland Dash 8	37
11	Avro RJ85	69

Under terms of the Airlink Agreement, the Company subleases its Dash 8 aircraft from Northwest under operating leases with original terms of up to five years. The Airlink Agreement allows the Company to return aircraft to Northwest upon the occurrence of certain events, including termination or breach of the Airlink Agreement. These leases require rental payments of approximately $863 per year for each aircraft. Until January 1, 1996 the Airlink Agreement required Northwest to provide for all major maintenance and overhauls for Dash 8 aircraft. Pursuant to an amendment to the Airlink Agreement, along with revenue enhancements, the responsibility for certain Dash 8 maintenance costs were transferred to Mesaba effective January 1, 1996. Aircraft maintenance and repairs on Saab 340 and RJ85 aircraft are charged to expense when incurred, except for the cost of major airframe inspections, for which the estimated cost is accrued and charged to maintenance expense based upon hours flown, thus providing for the inspection cost when it occurs. The aircraft operating leases require future minimum rental payments as follows at March 31, 1998:

1999	$ 51,387
2000	45,597
2001	45,597
2002	45,597
2003	5,597
Thereafter	$264,853

Mesaba has firm commitments for 21 additional Saab 340 and one RJ85 aircraft. The previous table does not reflect any minimum lease payments for those undelivered aircraft. Rent expense under aircraft operating leases totaled approximately $49,500 in 1998, $31,242 in 1997 and $31,330 in 1996 (including $27,172, $21,564 and $21,564 paid to Northwest in 1998, 1997 and 1996, respectively).

In March 1996, the Company entered into an agreement with Saab Aircraft AB to acquire up to 72 Saab 340 aircraft. As of March 31, 1998, Mesaba has taken delivery of 55 of the thirty to thirty-four passenger Saab regional airliner. The balance of the aircraft will replace Mesaba's remaining fleet of Dash 8 aircraft within the next nine months.

4. Income Taxes:

The provision for income taxes for the three years ended March 31 is comprised of the following elements:

	1998	1997	1996
Current:			
Federal	$11,053	$ 8,748	$ 4,130
State	2,895	2,207	1,232
Deferred	(819)	(2,228)	293
Total provision for income taxes	$13,129	$ 8,727	$ 5,655

The actual income tax expense differs from the expected tax expense for 1998, 1997 and 1996 (computed by applying the U.S. federal corporate tax rate of 35 percent to earnings before income taxes) as follows:

	1998	1997	1996
Computed tax expense at statutory rate	$11,527	$ 7,250	$21,675
Increase (decrease) in income taxes resulting from:			
Tax free distribution of subsidiary	-	-	(17,256)
State taxes, net of federal tax benefit	1,672	1,654	933
Non-deductible flight crew expenses	552	397	251
Other, net	(622)	(574)	52
Total income tax expense	$13,129	$ 8,727	$ 5,655

Deferred tax assets and liabilities are comprised of the following as of March 31:

	1998	1997
Deferred tax assets:		
Maintenance	$2,126	$2,560
Accrued vacation	1,372	1,081
Property taxes	645	398
Prepaid rent	229	248
Workers' compensation insurance	538	389
Warrant Amortization	489	-
IRS Settlement	502	-
Other	393	53
Gross deferred tax assets	6,294	4,729
Deferred tax liabilities:		
Property and equipment	1,042	619
Preoperating costs	457	63
Integration funds	93	164
Gross deferred tax liabilities	1,592	846
Net deferred tax assets	$4,702	$3,883

5. Shareholders' Equity:

Stock Split

On April 6, 1998 the Company's board of directors declared a three-for-two stock split of the Company's common stock for shares held of record on April 17, 1998. The par value per common share remained at $0.01. This stock split has been retroactively reflected in these financial statements.

Stock Option Plans

The Company has stock option plans for key employees and directors which authorize the issuance of shares of common stock for such options. Under the plans, options are granted by the compensation committee of the board of directors and vest over a period of four to five years commencing one year after the date of grant. The purchase price of the stock is 110% of the fair market value of the stock at the date of grant for participants owning 10% or more of the outstanding common stock and 100% of the fair market value for all other participants. In connection with the spin-off outstanding options were repriced in relation to the fair market value of the Company, post-spin-off (see Note 10).

Stock option transactions for the three years ended March 31 were as follows:

	Shares	Price Per Share
Options outstanding, March 31, 1995	1,706,430	$1.42-$ 6.83
Granted	691,500	$2.92-$ 5.25
Exercised	(838,980)	$1.42-$ 6.33
Canceled	(617,700)	$4.50-$ 6.83
Options outstanding, March 31, 1996	941,250	$2.75-$ 5.25
Granted	456,000	$7.75-$ 8.92
Exercised	(72,000)	$3.17-$ 5.17
Canceled	(15,000)	$ 8.00
Options outstanding, March 31, 1997	1,310,250	$2.75-$ 8.92
Granted	217,500	$8.25-$14.25
Exercised	(221,184)	$2.75-$ 8.92
Options outstanding, March 31, 1998	1,306,566	
Exercisable at March 31, 1998	458,316	
Available for grant at March 31, 1998	744,000	

As of March 31,1998, of the total shares available for grant, 219,000 are available for non-employee directors and 525,000 are available for certain management personnel. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized in the accompanying consolidated statement of operations. Had compensation cost been recognized based on the fair values of options at the grant dates consistent with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and net income per common share would have been decreased to the following pro forma amounts:

	1998	1997	1996
Net Income			
As reported	$19,804	$11,986	$56,275
Pro forma	18,873	$11,462	56,806
Basic Earning Per Share			
As reported	$ 1.02	$ .63	$ 3.31
Pro forma	$ 0.97	$ .60	$ 3.30
Diluted Earnings Per Share			
As reported	$ 0.95	$ .62	$ 3.21
Pro forma	$ 0.91	$ .59	$ 3.20

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model summarized in the following chart.

	1998	1997	1996
Risk free interest rate	5.66%-5.68%	6.08% - 6.45%	5.44% - 6.10%
Expected life of options granted	6.0 yrs	6.0 yrs	6.0 yrs
Expected volatility of options granted	36.63%	43.50%-45.06%	43.96%-49.80%
Expected dividend yield	$0	$0	$0
Weighted average fair value of options granted	13.98	4.19	1.40

Stock Purchase Plan

The Company has an employee stock purchase plan which allows all full-time personnel employed for more than six months the opportunity to purchase shares of stock in the Company at current market prices through payroll deductions. All administrative costs of this plan are paid by the Company.

6. Commitments and Contingencies:

Lease Commitments

In addition to the aircraft described in Note 3, the Company leases land, office and hangar facilities and certain terminal facilities under capitalized and operating leases which provide for approximate future minimum rental payments as follows at March 31, 1998:

	Capitalized Leases	Operating Leases
1999	$ 861	$ 250
2000	784	250
2001	785	250
2002	786	250
2003	643	250
Thereafter	4,025	1,613
	$7,884	$2,863
Less- Amount representing interest	2,697	
	5,187	
Less- Current maturities	436	
Total long-term capital lease obligations	$4,751	

Rent expense under all facility operating leases totaled approximately $3,410 in 1998, $2,857 in 1997 and $2,405 in 1996.

Benefit Plan

The Company maintains a 401(k) benefit plan for eligible employees whereby the Company will match 25% to 75% of employee contribution to the plan, up to 8% of each employee's compensation, depending on each employee's length of service. The Company's contribution to the plan totaled $701 to the plan in 1998, $589 in 1997 and $303 in 1996.

Litigation

The Company is a party to ongoing legal and tax proceedings arising in the ordinary course of business. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or its cash flows.

7. Earnings per Share

The table below sets forth the computation of earnings per common share.

	1998	1997	1996
Numerator:			
Net Income	$ 19,804	$ 11,986	$ 56,275
Denominator:			
For Earnings per Common Share:			
Weighted average number of issued shares outstanding	19,270	19,143	16.857
Effect of dilutive Securities:			
Computed shares outstanding under the Company's stock option plan utilizing the treasury stock method	711	86	141
Computed shares outstanding under warrants issued utilizing the treasury stock method	865	81	536
For earnings per Common Share - Diluted:			
Weighted Average Common Shares and Share Equivalents Outstanding	20,846	19,310	17,534
Earnings per share - Basic	$ 1.02	$ 0.63	$ 3.34
Earnings per share - Diluted	$ 0.95	$ 0.62	$ 3.21

8. Subsequent Events (unaudited)

Mesaba and Northwest entered into an amendment to the Jet Agreement, dated April 1, 1998, under which Mesaba will operate an additional six RJ85 regional jets for Northwest. The aircraft will be subleased from Northwest and will be operated as Northwest Jet Airlink from Minneapolis/St. Paul and Detroit hubs according to routes and schedules determined by Northwest. The aircraft will be delivered at a rate of approximately one aircraft per month beginning in June 1998. In connection with the amended Jet Agreement, the Company issued a warrant to Northwest to allow Northwest to purchase 474,192 shares of the Company's common stock at an exercise price of $21.25 per share. Mesaba and Northwest entered into an Agreement, dated June 2, 1998, under which Mesaba will operate an additional 18 RJ85 regional jets for Northwest. The aircraft will be subleased from Northwest and will be operated as Northwest Jet Airlink from Minneapolis/St. Paul and Detroit hubs according to routes and schedules determined by Northwest. In connection with the amended Jet Agreement, the Company issued a warrant to Northwest to allow Northwest to purchase 1,435,230 shares of the Company's common stock at an exercise price of $21.25 per share.

9. Quarterly Financial Data

(in thousands except share and per share data)

Quarters of Fiscal Year Ended March 31, 1998	June 30, 1997	September 30, 1997	December 31, 1997	March 31, 1998	Fiscal Year 1998
Total operating revenues	$54,424	$71,942	$75,443	$75,416	$277,225
Operating income	6,209	9,155	8,327	6,678	30,369
Net income	3,973	5,748	5,292	4,791	19,804
Earnings per Common Share	$ 0.21	$ 0.30	$ 0.27	$ 0.25	$ 1.03
Weighted average Common shares outstanding	19,183	19,238	19,276	19,381	19,270
Earnings per Common Share - Diluted	$ 0.20	$ 0.28	$ 0.25	$ 0.22	$ 0.95
Weighted average Common shares and Share Equivalents outstanding	19,792	20,549	21,021	21,530	20,846

Quarters of Fiscal Year Ended March 31, 1997	June 30, 1996	September 30, 1996	December 31, 1996	March 31, 1997	Fiscal Year 1997
Total operating revenues	$42,421	$46,675	$48,047	$48,558	$185,701
Operating income	5,069	6,500	4,901	3,113	$ 19,583
Net income	3,001	3,860	3,001	2,124	$ 11,986
Earnings per Common Share	$ 0.16	$ 0.20	$ 0.16	$ 0.11	$ 0.63
Weighted average Common shares outstanding	19,113	19,135	19,150	19,173	19,143
Earnings per Common Share - Diluted	$ 0.15	$ 0.20	$ 0.16	$ 0.11	$ 0.62
Weighted average Common shares and Share Equivalents outstanding	19,466	19,433	19,155	19,175	19,310

10. Spin-Off

In June 1994, the Company acquired the common stock of Conquest Sun Airlines, Inc. ("Conquest") for $2,500. The acquisition was recorded under the purchase method of accounting. Subsequent to the transaction the acquired company's name was changed to Airtran Airways. In March 1996, the Company and Northwest entered into an agreement to spin off Airtran Airways and Mesaba's fixed base operation (FBO) in Grand Rapids, Minnesota. Under the terms of the spin-off, the Company established a new subsidiary (Airways Corporation) and consolidated Airtran Airways and the FBO, in order to facilitate the distribution of Airways Corporation's common stock to the Company's shareholders. In addition, The Company made a $20,250 contribution in cash and certain assets to Airways Corporation prior to the spin-off date. Also in connection with the spin-off, Northwest waived its right to receive a distribution of Airways Corporation common stock, in exchange for 3,078,413 shares of Mesaba Holdings, Inc. common stock. Northwest exercised its warrants to purchase 2,248,617 shares of the Company's common stock at their stated exercise price. Subsequent to these transactions, Northwest owned approximately 29.7% of the outstanding shares of the Company's common stock. In addition, Northwest assumed responsibility for setting Mesaba's flight schedules and aircraft routings and management of Mesaba's segment pricing and yield management functions. Northwest and Mesaba also entered into a good faith agreement to extend the Airlink Agreement for a minimum of 10 years. Northwest agreed to make quarterly payments to Mesaba which, together with payments under the Airlink Agreement, guaranteed that Mesaba's pretax income would be not less than $7.6 million for the last three quarters of fiscal 1996 and $10.0 million for fiscal 1997. Revenues do not include any payments made to Mesaba pursuant to the income guarantee as the Company's internally generated profits exceeded the guarantee amount. Concurrent with the spin-off date, outstanding Company stock options were repriced (reduced by $2.00 per share) in relation to the fair market value of the Company post-spin-off of Airways. Unexercised options previously granted to certain directors and officers who became affiliated with Airways were canceled. At a special meeting held on August 29, 1995, the Company's shareholders ratified the distribution of 100% of the outstanding common stock of its wholly owned subsidiary, Airways, to the Company's shareholders. The shareholders also approved a proposal to change the Company's name to Mesaba Holdings, Inc. from Airtran Corporation. Following the distribution of the Airways stock on September 7, 1995, the sole business of the Company as consisted of the regional airline operations of Mesaba. The Company recorded a one-time gain of $49,303 in the second quarter of fiscal 1996 as a result of the tax-free distribution of Airways to the Company's shareholders. The gain reflects the difference between the book value of the Airways stock distributed in the spin-off and the actual market value of such stock on September 8, 1995.

Stock Quotations

The following table sets forth the range of high and low sale prices for the Company's Common Stock and the dividends per share for each of the fiscal quarters of the two years ended March 31, 1998. Quotations for such periods are as reported by NASDAQ for National Market issues.

	($) High	($) Low
Fiscal 1997		
First quarter	8.68	6.67
Second quarter	8.00	5.92
Third quarter	10.25	6.50
Fourth quarter	10.75	7.50
Fiscal 1998		
First quarter	10.18	7.50
Second quarter	14.75	8.83
Third quarter	17.33	13.42
Fourth quarter	21.00	15.83

Five year Selected Financial and Statistical Data

Mesaba Holdings, Inc. and Subsidiary

(amounts in thousands, except share and per share data)

Fiscal years ended March 31,	1998	1997	1996	1995	1994
Statement of Operations Data:					
Operating revenues	$277,225	$185,701	$170,455	$145,900	$129,582
Operating expenses	$246,856	$166,118	$158,148	$141,541	$122,983
Operating income	$ 30,369	$ 19,583	$ 12,307	$ 4,359	$ 6,599
Net income	$ 19,804	$ 11,986	$ 6,972*	$ 2,606	$ 3,663
Net income per share	$ 0.95	$ 0.62	$ .40*	$ 0.19	$ 0.27
Weighted Average number of shares outstanding and common shares equivalent - diluted	20,846	19,310	17,534	13,670	13,604
Balance Sheet Data:					
Current assets	$ 94,201	$ 71,201	$ 44,465	$ 46,154	$ 42,942
Net property and equipment	32,097	19,772	12,388	14,931	13,863
Other noncurrent assets	10,893	13,593	1,351	5,799	3,258
Total assets	$137,191	$104,566	$ 58,204	$ 66,884	$ 60,063
Current liabilities	$ 42,509	$ 33,393	$ 17,323	$ 17,052	1,674
Long-term liabilities	19,136	21,379	6,466	7,388	8,264
Shareholders' equity	75,546	49,794	34,415	42,444	40,125
Total liabilities and shareholders' equity	$137,191	$104,566	$ 58,204	$ 66,884	$ 60,063

*Excludes non-taxable gain of $49, 303 from distribution of subsidiary

Corporate Information

Mesaba Holdings, Inc. and Subsidiary

Address
Mesaba Holdings, Inc.
7501 26th Avenue South
Minneapolis, MN 55450
612-726-5151

Transfer Agent
Norwest Bank Minnesota, N.A.

Corporate Counsel
Briggs and Morgan,
Minneapolis, Minnesota

Auditors
Arthur Andersen LLP,
Minneapolis, Minnesota

Form 10-K
A copy of the Company's Form 10-K annual report will be provided free of charge to any shareholder upon written request to:

Finance Department
Mesaba Holdings, Inc.
7501 26th Avenue South
Minneapolis, MN 55450

Annual Meeting
The annual meeting of shareholders will be held at 1:30 p.m. Wednesday, August 19, 1998, at the Marriott City Center, Minneapolis, Minnesota

Board of Directors

Carl R. Pohlad
Chairman of the Board
Mesaba Holdings, Inc.

Bryan K. Bedford
President and Chief Executive Officer
Mesaba Holdings, Inc.

Donald E. Benson
Executive Vice President
Marquette Bancshares, Inc.

Christopher E. Clouser
Senior Vice President
Administration
Northwest Airlines, Inc.

Richard B. Hirst
Senior Vice President Corporate Affairs
Northwest Airlines, Inc.

Robert C. Pohlad
President
Pohlad Companies

Raymond J. Vecci
Executive Vice President
Customer Service
Northwest Airlines, Inc.

Raymond W. Zehr, Jr.
Vice President
Pohlad Companies

Corporate Officers

Carl R. Pohlad
Chairman of the Board

Bryan K. Bedford
President and Chief Executive Officer

John S. Fredericksen
Vice President Administration
and General Counsel

F. Darrell Richardson
Vice President Operations and
Chief Operating Officer

Robert H. Cooper
Vice President
Chief Financial Officer and Treasurer

Scott L. Durgin
Vice President
Customer Service

Managing Directors

James R. Arble
Director
Customer Service—Eastern Region

Scott R. Bussell
Director
Maintenance Operations

Wayne C. Heller
Director
System Operations Control

Jeffrey B. Jones
Director
Market Planning

Richard A. Lawrence
Director
Flight Operations

Jon R. Meyer
Director
Accounting and Controller

Dennis J. Ofsterdahl
Director
Customer Service—Western Region

Jeffrey C. Olander
Director
Information Systems

Darlene Radloff
Director
Corporate Training

Charles Rathbun
Director
Engineering and Quality Control

William R. Ruester
Director
Safety and Compliance

Dan E. Sheehan
Director
Administration and Human Resources

Sandy K. Sturm
Director
Purchasing and Contracts

Warren R. Wilkinson
Director
Marketing and Corporate
Communications

MESABA AIRLINES