MESABA AVIATION, INC.

Annual Report

For the Fiscal Year Ended
March 31, 1983

MESABA AVIATION, INC.

2002 Airport Road
Grand Rapids, Minnesota 55744
(218)-326-6657

Contents

About Mesaba

Mesaba provides regularly scheduled air passenger and air freight service to thirteen communities in Iowa, Minnesota, Nebraska and South Dakota as well as general aviation and travel services at its corporate headquarters in Grand Rapids, Minnesota.

The initial business operations of a predecessor company, also named Mesaba Aviation, Inc., commenced in 1944 in Grand Rapids, Minnesota. Mesaba Airlines has provided scheduled air transportation for passengers and cargo to Minnesota and surrounding states for ten years; on a limited basis by a predecessor company through March, 1981, and on an expanding basis since April, 1981, by our Company.

Our Company operates a fleet of five 15-passenger prop jet Beech 99 aircraft providing 30,108 scheduled miles and 334 scheduled departures per week. In 1983 we flew 1,084,309 miles and carried 31,720 passengers.

Mesaba currently employs approximately 100 employees who are dedicated and highly trained to offer the finest quality transportation services.

ANNUAL MEETING

Friday, August 12, 1983
3:00 p.m.
Holiday Inn, Grand Rapids, MN

AUDITORS

Arthur Andersen & Co.
Saint Paul, Minnesota

STOCK TRANSFER AGENT

Norwest Bank Minneapolis, N.A.
Minneapolis, Minnesota 55479

STOCK TRADING

Common Stock ($.01 par value)
Securities registered pursuant to § 12(g) of the Securities Exchange Act of 1934
Listed for trading on NASDAQ under the symbol MESA

Greetings to our Stockholders, Employees and Friends:

Mesaba emerged as a major competitive force in the regional airline transportation system during fiscal year 1983. Deregulation and the departure of major carriers from several regional cities created a greater market potential for our Company. Experienced, efficient and reliable operations, resulted in Mesaba's successful selection in a very competitive process to serve as the Essential Air Service carrier during fiscal 1983 for Fort Dodge and Mason City, Iowa, and Brookings, Huron and Mitchell, South Dakota. Our Company's route structure expanded and we made substantial financial progress as evidenced by our net income of $187,721 for 1983. Our consistent profitability during the year, along with the additional equity from the sale of stock in our initial public offering, places our company in an excellent financial position to grow into the future.

Our present airline route system provides 1,447 monthly scheduled departures in service to thirteen communities in the four states of Iowa, Minnesota, Nebraska and South Dakota. Scheduled miles flown each month are approximately 130,000, or the equivalent of five trips around the world. This increase to thirteen communities served from the previous year's total of seven resulted in a substantial growth of revenues, passengers and freight.

The revenue increase of 155% for fiscal 1983 to $4,048,146 from $1,586,570 in 1982 and the 201% growth in passengers carried to 31,720 from 10,527 over the same period of time, reflect the impact of growth on our Company's route system during the year.

This planned expansion was efficiently implemented, with the Company able to report a net income of $187,721 for the year as compared with a net loss of $177,602 in the prior year. The change in profitability over the two years was due, in part, to having a greater revenue base to absorb the fixed costs associated with operating specialized airline operations. Additional factors that aided in the profitability of the Company's airline operations were the diminishing effects of the air controllers' strike on the nation's air traffic and the reduction of higher interest rates. Mesaba's aviation and travel revenues decreased slightly during the year and accounted for 15 percent of total revenues.

Although the price of jet fuel did lower during the year Mesaba had a fuel cost sharing plan in effect with the Federal Government for the Essential Air Service routes and the majority of these cost reductions were returned to the government. All of these factors aided in our Company's profitability and helped to offset the negative impact on air travel of the national recession and, regionally, in the depressed steel and agricultural industries. Efficient and reliable operations, increased freight, passenger and public service revenues have all led to Mesaba's profitability and low systemwide passenger break-even load factor of approximately thirty percent. This low break-even load factor allows the Company an excellent opportunity to increase profitability as the passenger load-factor increases on existing routes due to the improving economy.

In addition to the growth achieved during 1983, Mesaba continued to build and ready for further market expansion. This included participation in current regional Essential Air Service cases and preparation for the future. During the year, qualified personnel were added to complement the Company's experienced group in all areas and an office expansion project was completed that will allow for future growth in our accounting, flight following, maintenance and reservations areas. Automation and new technologies for these areas have and are continuing to be upgraded to allow for the finest state-of-the-art capabilities.

With increased arrivals and departures occurring at the Minneapolis/St. Paul Airport, customer service personnel, maintenance technicians and the majority of our pilots were assigned there during the year. This was done to maintain our Company's highly regarded on-time and reliability record while offering personalized passenger service by company personnel.

The commitment of our employees and Mesaba's structured approach for growth have made us the Company we are today. The history of Mesaba includes operating in a region where major airlines were the only carriers receiving public service revenues. In the last year and a half, our Company has been eligible to receive public service revenues after successfully competing with other carriers for Essential Air Service routes. Although public service revenues received by regional carriers are substantially less than the amount received by the departing major carrier, these revenues are important for the assurance of air service in several cities during the next few years. We believe that as major carriers continue to exit cities with greater passenger boardings, the dependence of these communities upon public service revenues to maintain regional airline service will diminish.

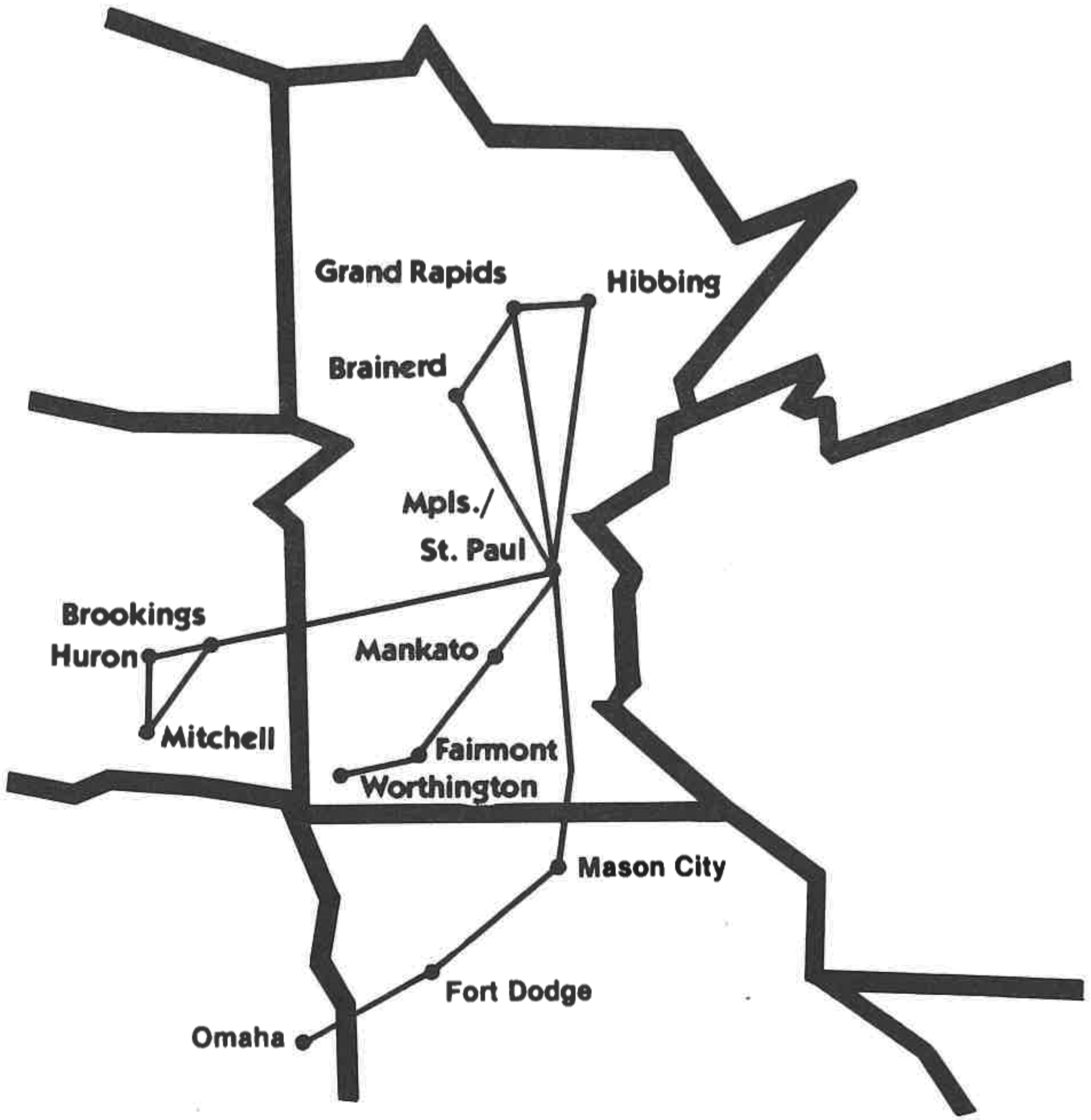
To provide for these larger enplaning cities in the future, Mesaba sees a need for utilization of aircraft in the thirty to fifty seat category. In 1981, our Company forecast a need for such an aircraft and after a thorough analysis signed an order for three de Havilland Dash-8's aircraft with deliveries scheduled in 1985. These jet prop aircraft accommodate thirty-six passengers in pressurized, airconditioned comfort, with a lavatory, galley and excellent cargo capacity, at 300 miles per hour speeds. The first aircraft of this model has rolled off the production line in Toronto and is beginning its flight certification process. This new generation of aircraft is designed for service in the regional airline market and features the latest technologies and fuel efficiencies. Along with our aircraft needs as they develop over the next two years, these future aircraft and our presently operated Beechcraft 99's will combine to make an efficient fleet for Mesaba.

As Mesaba grows in service to our great region, the commitment of our people, the continued reliability of our operations, continued passenger acceptance, the infusion of capital from our recent stock sale, continued profitability and the proper aircraft selection, will all contribute to our success as a competitive regional airline. We look forward to continued progress being made by Mesaba in 1984. Your support and efforts over the past year and into the future are greatly appreciated.

Best regards,

Robert D. Swenson
President &
Chief Executive Officer

MESABA AIRLINES
Current Route Map



Building our Company

Working with the cities we serve

Employees of our Company work closely with civic leaders, travel agents and customers in the communities we serve to keep users of our airline informed of current schedules and fares and to get their input for ways of improving our service to their communities. Our company strives to promote the finest possible airline service to the communities we serve.

Computerized reservation system

In November, 1981, Mesaba became a co-host with Republic Airlines on their ESCORT reservation system. This sophisticated reservation and telecommunication system enables Mesaba to link up with the national reservation network of airlines and travel agents to provide our customers with timely and convenient reservation services. The ESCORT system has the capacity to grow with our company as we expand our route system.

Good employees in a good Company

Mesaba's talented employees extend the warmth, sincerity and professionalism of our company to our passengers. Our personnel are well trained and are able to offer the finest possible service to our traveling public. The warmth, sincerity and professionalism of our employees helps our passengers to know that they are in good company with Mesaba. As Mesaba grows, our employees grow, and as a result we have a key ingredient to success - dedicated employees.

Office expansion

In March of 1983, our Company completed an addition to its corporate offices in Grand Rapids, Minnesota, of 3,200 square feet. This addition will allow Mesaba the necessary room to expand its accounting, reservations, flight following and corporate personnel as required when additional route expansion is undertaken.

Maintenance expansion

In August, 1982, Mesaba established a second maintenance base in Minneapolis, Minnesota. As our routes have expanded and since each aircraft is normally routed through Minneapolis daily, it has become more efficient to perform maintenance in Minneapolis. This maintenance base also gives us a foundation for future route expansion.

Expanded computer systems

Although Mesaba currently utilizes outside computer services and has computerized reservations, our company has ordered an IBM System 36 computer for inhouse installation in September, 1983. This new computer system will enable Mesaba to computerize inhouse our own accounting, maintenance and crew scheduling and will have the capacity for substantial growth.

Preparing for the future

In summary, Mesaba has the ingredients for continued success and growth; the people, the reliability, the experience, the financial base, the facilities and the aircraft to expand in regional airline services.

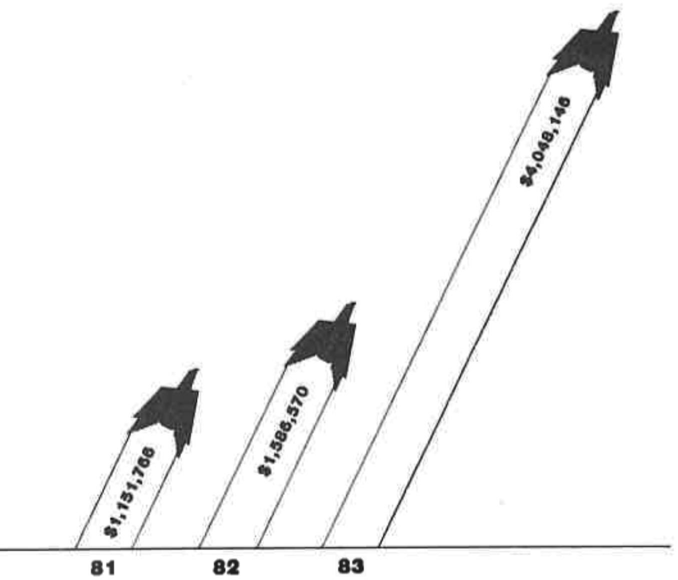
HIGHLIGHTS

Dollars in thousands, except per share figures

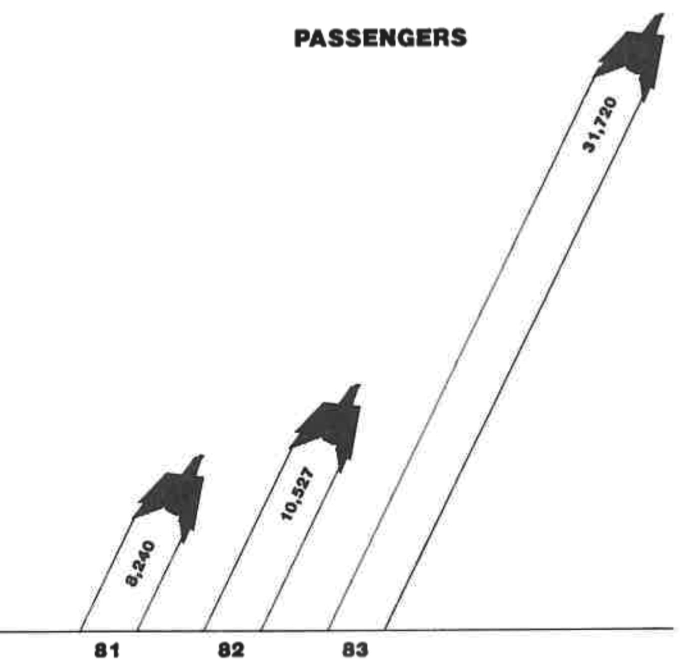
	1983	1982	1981 (Predecessor Business)
FINANCIAL			
Operating revenues	**$4,048**	$ 1,587	$1,152
Operating expenses	**3,682**	1,694	1,395
Operating income (loss)	**366**	(107)	(243)
Net income (loss) before extraordinary credit	**120**	(178)	(308)
Extraordinary credit	**68**	-0-	-0-
Net income (loss)	**188**	(178)	(308)
Net income (loss) per share	**0.14**	(0.16)	(0.32)
Working capital	**1,377**	36	N/A
Stockholders' equity	**2,396**	683	N/A
Stockholders' equity per share	**1.14**	.57	N/A
OPERATING			
Revenue passengers carried	**31,720**	10,527	8,240
Revenue passenger miles (000)	**5,572**	1,409	1,396
Passenger load factors	**33.6%**	30.1%	25.0%

Financial Review

REVENUES



PASSENGERS



Fiscal year 1983 compared with fiscal year 1982

Fiscal 1983 was a year of substantial growth in revenue and traffic with a resultant net income for our Company. In 1983, Mesaba commenced airline service to five essential air service communities in South Dakota and Iowa and added the hub of Omaha, Nebraska to its route system.

Revenues increased 155% to $4,048,146 in 1983 as compared with $1,586,570 in 1982. This increase is attributable in part to a 207% increase in passenger revenue in 1983 over 1982. An increase in public service revenue received by our Company in connection with service to essential air service communities is also a contributing factor in operating revenue growth in 1983. Such public service revenues increased from $235,503 in 1982 to $1,576,355 in 1983.

Operating expenses in 1983 were $3,682,362 as compared with $1,693,904 in 1982, an increase of 117%. The increase in operating expenses in 1983 is principally due to the expansion by Mesaba of scheduled airline service. Aircraft miles flown increased by 248% to 1,084,309 miles and departures performed increased from 4,136 in 1982 to 12,974 in 1983, or an increase of 214%.

Net non-operating expenses were $178,063 in 1983 as compared with $70,268 in 1982. The major factor in this increase is additional interest expense resulting from greater average borrowings to finance scheduled airline service expansion.

In 1983 Mesaba's net income was $187,721 or $0.14 per share on revenues of $4,048,146, as compared with a net loss of $177,602 or a loss of $0.16 per share on revenues of $1,586,570 in 1982.

At March 31, 1983, our Company had a net operating loss carry-forward for tax reporting purposes of approximately $414,000 and an investment tax credit carry-forward of approximately $59,000. These carry-forwards will be available to Mesaba until 1997 and 1998 to offset future taxes payable.

Fiscal year 1982 compared with fiscal year 1981 (predecessor business)

Operating revenues for the fiscal year ended March 31, 1982 increased approximately 38% over the revenues of the Company's predecessor entity for the year ended March 31, 1981. This increase resulted in part from an increase of 28% in the number of passengers carried due to the expanded route structure of the Company. Also commencing in fiscal year 1982, the Company received federal subsidies for certain "essential air service" routes, which constituted approximately 15% of the Company's operating revenues for the year ended March 31, 1982.

Operating expenses of the Company for the year ended March 31, 1982, increased approximately 21% over the expenses of the Company's predecessor business for the year ended March 31, 1981. The rise in expenses reflects increases

in the number of aircraft operated from one to two and in the number of employees from 25 to 57, as well as general inflationary pressures. The increase in the number of routes being operated by the Company and the corresponding increase in the number of passengers carried and revenue received by the Company is largely due to passage of the Airline Deregulation Act of 1978 and the public service revenues provided thereunder for service to certain essential air service communities.

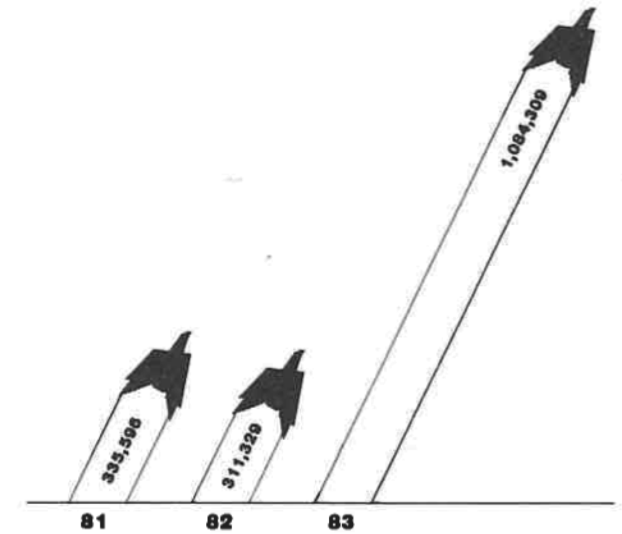
Liquidity and Capital Resources

The Company had working capital of $1,376,624 at March 31, 1983 as compared with $35,625 at March 31, 1982. On March 4, 1983, the Company completed its initial public stock offering of 900,000 shares of common stock at $2.00 per share, with net proceeds of approximately $1,525,000. At March 31, 1983, the Company had used approximately $246,000 of such proceeds to retire short term debt and $18,000 of such proceeds to retire various long term debts that were financed at high rates of interest. The balance of the offering proceeds at March 31, 1983, plus some internally generated funds, in the total amount of $1,318,000, have been invested in short term investments. Such invested amounts will ultimately be used for working capital requirements, reduction of short term debt, acquisition of additional aircraft and spare parts, and for start-up costs in connection with future route expansion.

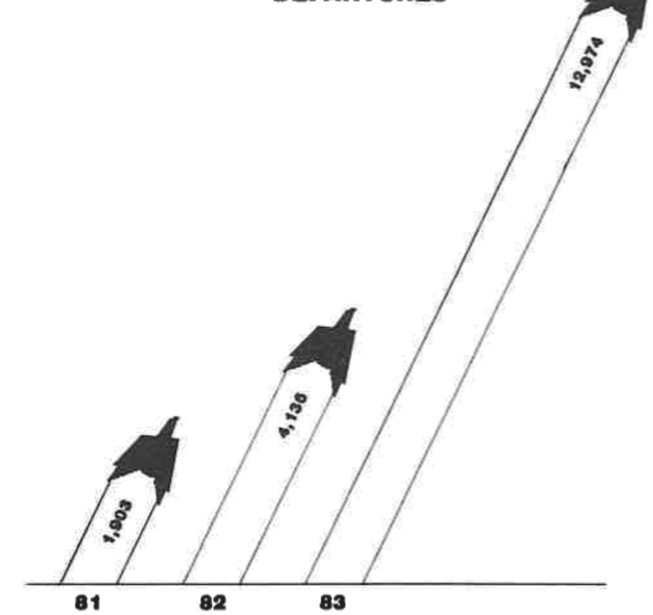
Mesaba's acquisition costs for additional Beech 99 aircraft were $353,000 in 1983 and $807,000 in 1982. These aircraft were financed through long term debt agreements over 60 and 67 months, respectively, at the current prime interest rate plus 1-1/2%. In addition, Mesaba has leased two Beech 99 aircraft under operating leases with terms of two to three years with options to return aircraft on 60 days notice, to bring the total airline fleet to six Beech 99's.

Proposed new aircraft acquisitions include the consummation of a purchase agreement with de Havilland Aircraft of Canada, Ltd. for three DHC-8 aircraft. These aircraft will be available for delivery to the Company in 1985, for a total purchase price of approximately $15,000,000, subject to adjustment for labor and material cost index changes. The Company has made a deposit of $67,000 towards the purchase of such aircraft, which deposit is refundable prior to January 1, 1984. Mesaba will proceed with this purchase only if anticipated route expansion occurs and adequate financing is available on suitable terms. The Company may seek to obtain such additional financing through the Canadian Export Development Corporation or Enterprise Development Programme, through additional bank borrowings made possible by the addition to the Company's equity base as a result of its recently completed stock offering, through capital leasing arrangements, or through additional equity financing.

SCHEDULED MILES FLOWN



DEPARTURES



MESABA AVIATION, INC.

BALANCE SHEETS
As of March 31

ASSETS

	1983	1982
CURRENT ASSETS:		
Cash	$ 31,670	$ 24,171
Short-term investments, at cost	1,318,000	—
Accounts receivable	520,089	198,965
Inventories —		
Service parts	261,106	205,570
Aircraft held for resale	—	206,447
Prepaid expenses	32,329	67,663
Total current assets	2,163,194	702,816
PROPERTY AND EQUIPMENT:		
Flight equipment	1,977,717	1,459,286
Buildings and improvements	179,089	145,307
Furniture and equipment	174,456	108,295
Accumulated depreciation and amortization	(380,049)	(124,257)
Total property and equipment	1,951,213	1,588,631
OTHER ASSETS, principally deferred preoperating costs and aircraft deposits	136,776	133,366
	$4,251,183	$2,424,813

LIABILITIES AND STOCKHOLDERS' EQUITY

	1983	1982
CURRENT LIABILITIES:		
Notes payable	$ —	$ 153,536
Current maturities of long-term debt	232,100	174,269
Accounts payable	186,738	220,546
Accrued expenses —		
Federal subsidies	131,500	29,442
Payroll and other	125,502	68,221
Deferred ticket revenue	110,730	21,177
Total current liabilities	786,570	667,191
LONG-TERM DEBT, net of current maturities	1,068,773	1,074,924
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value; 5,000,000 shares authorized, 2,100,000 and 1,200,000 shares issued and outstanding	21,000	12,000
Paid-in capital	2,364,721	848,300
Retained earnings (deficit)	10,119	(177,602)
Total stockholders' equity	2,395,840	682,698
	$4,251,183	$2,424,813

The accompanying notes are an integral part of these balance sheets

MESABA AVIATION, INC.

STATEMENTS OF OPERATIONS
For the Years Ended March 31

	1983	1982	1981 (Predecessor business)
OPERATING REVENUES:			
Passenger	$1,707,557	$ 555,734	$ 379,159
Public service revenues	1,576,355	235,503	70,000
Aircraft sales and services	601,839	728,742	683,966
Freight and other	162,395	66,591	18,641
Total operating revenues	4,048,146	1,586,570	1,151,766
OPERATING EXPENSES:			
Flying operations	1,129,557	332,294	329,561
Maintenance	412,825	103,247	138,753
Aircraft and traffic servicing	588,489	202,249	72,421
Reservations, sales and advertising	365,732	87,029	71,794
Aircraft sales and services	562,134	694,020	573,048
General and administrative	314,530	147,429	98,162
Depreciation and amortization	309,095	127,636	111,166
Total operating expenses	3,682,362	1,693,904	1,394,905
Operating income (loss)	365,784	(107,334)	(243,139)
NONOPERATING EXPENSE (INCOME):			
Interest expense	213,030	109,335	109,738
Interest income	(8,954)	(28,276)	(1,719)
Other, net	(26,013)	(10,791)	(43,038)
Total nonoperating expense, net	178,063	70,268	64,981
Income (loss) before income taxes and extraordinary item	187,721	(177,602)	(308,120)
PROVISION FOR INCOME TAXES	68,000	—	—
Net income (loss) before extraordinary item	119,721	(177,602)	(308,120)
EXTRAORDINARY CREDIT — Income tax benefit from utilization of net operating loss carryovers	68,000	—	—
Net income (loss)	$ 187,721	$ (177,602)	$ (308,120)
INCOME (LOSS) PER SHARE:			
Before extraordinary credit	$0.09	$(0.16)	$(0.32)
Extraordinary credit	0.05	—	—
Net income (loss) per share	$0.14	$(0.16)	$(0.32)

The accompanying notes are an integral part of these statements

MESABA AVIATION, INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Years Ended March 31, 1983 and 1982
And for the Period from Inception (March 4, 1981) to March 31, 1981

	1983	1982	1981 (From Inception)
SOURCES OF WORKING CAPITAL:			
Net income (loss) before extraordinary credit	**$ 119,721**	$ (177,602)	$ —
Items not affecting working capital—			
Depreciation and amortization of property and equipment	**306,286**	116,428	—
Amortization of preoperating costs	**79,278**	12,500	—
Total working capital provided (used) by operations	**505,285**	(48,674)	—
Extraordinary credit	**68,000**	—	—
Sale of common stock	**1,525,421**	273,070	587,230
Debt assumed on assets acquired from predecessor business	—	—	486,504
New borrowings during the year	**276,873**	795,347	—
Sale of property and equipment	**36,944**	141,857	—
Total sources of working capital	**2,412,523**	1,161,600	1,073,734
USES OF WORKING CAPITAL:			
Purchase of property and equipment—			
Predecessor business	—	—	868,549
Other	**705,812**	990,867	—
Reduction of long-term debt	**283,024**	206,927	—
Changes in other assets	**82,688**	106,761	26,605
Total uses of working capital	**1,071,524**	1,304,555	895,154
Increase (decrease) in working capital	**$1,340,999**	$ (142,955)	$ 178,580
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
Cash and short-term investments	**$1,325,499**	$ (263,171)	$ 287,342
Accounts receivable	**321,124**	106,627	92,338
Inventories	**(150,911)**	112,124	299,893
Prepaid expenses	**(35,334)**	34,654	33,009
Notes payable	**153,536**	110,061	(263,597)
Current maturities of long-term debt	**(57,831)**	(85,155)	(89,114)
Accounts payable, accrued expenses and deferred ticket revenue	**(215,084)**	(158,095)	(181,291)
Increase (decrease) in working capital	**$1,340,999**	$ (142,955)	$ 178,580

The accompanying notes are an integral part of these statements

MESABA AVIATION, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended March 31, 1983 and 1982
And for the Period from Inception (March 4, 1981) to March 31, 1981

	Common Stock		Paid-in	Retained Earnings	
	Shares	Amount	Capital	(Deficit)	Total
INITIAL CAPITALIZATION:					
Sale of common stock	348,716	$ 3,487	$ 246,513	$ —	$ 250,000
Issue of common stock to Mr. Lowell Swenson and family	470,487	4,705	332,525	—	337,230
BALANCE, MARCH 31, 1981	819,203	8,192	579,038	—	587,230
Sale of common stock	380,797	3,808	269,262	—	273,070
Net loss	—	—	—	(177,602)	(177,602)
BALANCE, MARCH 31, 1982	1,200,000	12,000	848,300	(177,602)	682,698
Sale of common stock, net of offering costs and commissions	900,000	9,000	1,516,421	—	1,525,421
Net income	—	—	—	187,721	187,721
BALANCE, MARCH 31, 1983	2,100,000	$21,000	$2,364,721	$ 10,119	$2,395,840

The accompanying notes are an integral part of these statements

NOTES TO FINANCIAL STATEMENTS

(1) Organization and Business —

Mesaba Aviation, Inc. (Mesaba) is primarily a regional air carrier providing scheduled passenger and air freight service to cities in Minnesota, South Dakota, Iowa and Nebraska under the name of Mesaba Airlines. Mesaba was formed on March 4, 1981, to acquire the assets and assume the liabilities of Halvorson of Duluth, Inc. (Halvorson), a corporation owned by Lowell Swenson, Mesaba's Chairman of the Board. The assets of Halvorson were purchased on March 31, 1981, in a taxable transaction and were recorded at Mesaba's cost as of that date. Mesaba also assumed the debts of Halvorson, including $337,230 payable to Mr.Swenson and his family, which was converted to 470,487 shares of common stock. Additional common stock was sold to unrelated investors for cash.

(2) Stock Transactions —

In 1982, the stockholders adopted amended and restated articles of incorporation and a plan of recapitalization increasing authorized common stock from 25,000 to 5,000,000 shares, changing the par value from $1.00 per share to $.01 per share, and converting each share of the previously issued shares to 139 shares of the newly authorized common stock. The accompanying financial statements have been adjusted to retroactively give effect to the recapitalization and change in par value. The board of directors also authorized issuance of up to 1,000,000 shares of preferred stock with terms to be determined at the time of issuance.

In March 1983, Mesaba completed its initial public offering of common stock. A total of 900,000 shares were issued for which $1,525,421 proceeds were received net of offering expenses and commissions.

(3) Summary of Significant Accounting Policies —

Inventories:

Inventories consist of new and used aircraft held for resale, fuel and parts and are stated at the lower of first-in, first-out cost or market.

Property and Equipment:

Property and equipment are stated at cost and depreciated on a straight-line basis for financial reporting purposes over the estimated useful lives of seven years for flight equipment, 6-36 years for buildings and improvements and 3-10 years for all other equipment. Accelerated methods of depreciation are utilized for tax reporting purposes.

Maintenance and repairs are charged to expense when incurred except for major aircraft engine repairs. For purchased aircraft, the deferred method of accounting is followed whereby major overhaul costs are capitalized when the expenditure is incurred and amortized over the estimated number of hours until the next scheduled overhaul. For leased aircraft, major engine repair costs are accounted for using the accrued method to recognize the liability to the lessor for engine useage. Under this method, the estimated cost of future overhauls is accrued based upon hours flown at a rate computed to provide for the overhaul cost when it occurs.

Preoperating costs:

The costs of developing new routes and preoperating costs incurred to start up new routes are deferred and amortized over two years.

Revenue Recognition:

Revenues are recorded as income when the respective services are rendered. Tickets which are sold but not yet used are recorded as deferred ticket revenue.

Public Service Revenues:

Mesaba receives public service revenues for serving communities that do not generate sufficient traffic to fully support profitable air service. The amount of such subsidies is negotiated with the Civil Aeronautics Board (CAB) under a competitive bid process and is projected to meet all operating expenses and to provide a return on investment with respect to eligible routes.

Investment Tax Credits:

Investment tax credits generated through the acquisition of assets are accounted for under the deferred method for financial reporting purposes and are amortized as a reduction of income taxes over the useful lives of the related assets.

Income (Loss) Per Share:

Income (loss) per share has been computed to give retroactive effect to the recapitalization of Mesaba as discussed in Note 2. Net income (loss) per share has been computed based upon the weighted average shares outstanding of 1,344,664, 1,110,231 and 819,203 for 1983, 1982 and 1981, respectively. The net loss per share for the predecessor business for 1981 was computed on a pro forma basis giving retroactive effect to the stock issued in connection with the purchase of assets of Halvorson, as discussed in Note1, and reducing the loss by $48,070 for accrued interest expense on the note payable to Mr.Swenson and family which was subsequently converted to stock in the purchase of Halvorson.

Reclassifications:

Certain reclassifications have been made to the 1982 income statement to conform with the 1983 presentation. These reclassifications had no effect on previously reported net income.

(4) Debt —

The Company's long-term debt is summarized as follows:

	March 31, 1983	1982
Note payable to bank, interest rate of prime plus 1½% (12% at March 31, 1983), due in monthly principal installments of $11,734 to March 1988, collateralized by aircraft, personal guarantee of Lowell Swenson released effective March 4, 1983	$ 704,028	$ 774,028
Note payable to a foundation, 10%, increasing quarterly principal payments of $8,750 to $10,000 plus interest through 1984, balance of $270,000 due in March 1985, collateralized by aircraft	346,250	377,500
Notes payable to bank, interest rate at 12%, due in monthly installments through 1985; collateralized by aircraft	11,660	95,094
Note payable to Lowell Swenson, interest rate of prime plus 1½% (12% at March 31, 1983), due in monthly installments of $4,030 through February 1988, collateralized by aircraft	237,761	—
Other	1,174	2,571
	1,300,873	1,249,193
Less — Current maturities	(232,100)	(174,269)
Total long-term debt	$1,068,773	$1,074,924

The notes payable to the bank for $704,028 and to the foundation have certain restrictive covenants related to maintaining a minimum level of tangible net worth, retaining present management and ownership control, and retaining base operations in Grand Rapids, Minnesota. Mesaba has complied with the requirements of these financing arrangements as of March 31, 1983.

As of March 31,-1982, Mesaba had notes payable to Northern Eagle (an affiliated company, see Note 7) totaling $84,295 and demand notes payable to a bank totaling $69,241, all of which were repaid in 1983.

(5) Leases —

Mesaba leases its corporate headquarters, certain aircraft and terminal facilities. These agreements are accounted for as operating leases and provide for future minimum rental payments of $170,700 in 1984, $174,200 in 1985, $70,400 in 1986 and $3,400 thereafter. Rent expense under the above leases was $94,400 for 1983 and $10,600 for 1982 and $4,400 for 1981.

(6) Income Taxes —

Mesaba provides deferred taxes for all timing differences between financial reporting and tax reporting income. The provision for income taxes for the year ended March 31, 1983, is comprised of the following elements:

Current —	
Federal and state	$ 13,000
Deferred, resulting from —	
Accelerated depreciation	93,000
Deferred preoperating costs	(18,000)
Accrued expenses not deductible currently for tax reporting purposes	(23,000)
Deferral of investment tax credits	4,000
Other, net	(1,000)
Total provision for income taxes	$ 68,000

The difference between the statutory federal income tax rate and the effective tax rate for the year ended March 31, 1983, is as follows:

Statutory federal tax rate	46.0%
Impact of graduated federal tax rate	(10.3)
Amortization of deferred investment tax credits	(6.0)
State taxes, net of federal benefit	5.4
Other	1.1
	36.2%

The income tax benefit resulting from utilization of operating loss carryforwards in the year ended March 31, 1983, is reflected as an extraordinary credit in the accompanying statement of operations.

At March 31, 1983, Mesaba had net operating loss carryforwards of $414,000 for federal tax reporting purposes. Investment tax credit carryforwards of $9,000 for financial reporting purposes and $59,000 for tax reporting purposes are also available. These carryforwards expire in 1997 and 1998 and are available to offset future taxes payable.

(7) Transactions with Stockholders and Affiliated Company —

In the normal course of business, Mesaba purchases aircraft and repair parts from Northern Eagle Airways, Inc., a company owned by Lowell Swenson. Northern Eagle is a fixed base operation located in Thief River Falls, Minnesota. During 1983, 1982 and 1981, the Company made approximately $9,000, $455,000 and $210,000, respectively, of such purchases. Also, the Company sells fuel and repair services to Northern Eagle. Revenues from sales totaled $17,000, $23,000 and $46,000 in 1983, 1982 and 1981, respectively. As of March 31, 1983, Mesaba had accounts receivable from Northern Eagle totaling $12,000.

In addition during 1983 and 1982, Mesaba paid interest of approximately $4,000 and $16,000 on short-term notes payable to Northern Eagle.

During 1981, Halvorson paid interest to Lowell Swenson and his family totaling $48,000 on loans made to the Company of approximately $540,000.

During 1983, Mesaba borrowed $270,000 from Lowell Swenson to finance the purchase of an aircraft (see Note 4).

(8) Commitments and Contingencies —

As of March 31, 1983, Mesaba had made refundable deposits of $67,000 for the purchase of three 36-passenger DHC-8 aircraft from The de Havilland Aircraft of Canada, Limited. Delivery is scheduled for 1985 and the total purchase price for the three aircraft and support parts is expected to approximate $15,000,000.

(9) Stock Options —

In September 1982, the Company adopted stock option plans for key employees and directors and reserved 210,000 shares of common stock for sale to participants. Under the plans, options are granted by the board of directors and are exercisable for 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 outstanding common stock and 100% of fair market value for all other participants.

Stock option transactions for 1983 are as follows:

	Shares Under Option
Options outstanding, beginning of year	—
Granted —	
$0.72 per share	131,780
$0.79 per share	70,955
$2.00 per share	7,260
Options outstanding, end of year	209,995

AUDITORS' REPORT

To Mesaba Aviation, Inc.:

We have examined the balance sheets of MESABA AVIATION, INC. (a Minnesota corporation) as of March 31, 1983 and 1982, and the related statements of operations, changes in stockholders' equity, and changes in financial position for the years then ended, and the statements of changes in stockholders' equity and changes in financial position for the period from inception (March 4, 1981) to March 31, 1981. We have also examined the statement of operations of Halvorson of Duluth, Inc. (predecessor business) for the year ended March 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Mesaba Aviation, Inc. as of March 31, 1983 and 1982, and the results of its operations and those of the predecessor business for each of the three years in the period ended March 31, 1983, and the changes in its financial position for each of the two years in the period ended March 31, 1983, and the period from inception to March 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Saint Paul, Minnesota,
May 6, 1983.

Supplemental Stockholder Information

FORM 10-K Report

For the Form 10-K report to the Securities and Exchange Commission, write to Mr. David K. Knudson, Vice President and Treasurer, Mesaba Aviation, Inc., 2002 Airport Road, Grand Rapids, MN 55744.

COMMON STOCK INFORMATION

The following table sets forth the price range for Mesaba's common stock, which has been traded in the local Minneapolis, Minnesota over-the-counter market, as reported in the financial pages of the Minneapolis, Minnesota daily newspaper. These quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

	High	Low
March 7 — March 31, 1983	2-3/8	2
April 1 — April 30, 1983	2-7/8	2-1/8
May 1 — May 31, 1983	3	2-5/8
June 1 — June 30, 1983	4-5/8	2-3/4

Mesaba's Common Stock has recently been listed on NASDAQ under the symbol MESA.

No cash dividends have been paid by Mesaba to date.

On June 20, 1983, our Company had 642 shareholders of record.

BOARD OF DIRECTORS

Lowell T. Swenson*
Thief River Falls, Minnesota

Chairman of the Board
Mesaba Aviation, Inc.

Chairman of the Board
First National Bank of Baudette

Director — Norwest Bank
Thief River Falls, Minnesota

Director — Arctco, Inc.
Thief River Falls, Minnesota

Robert D. Swenson
Grand Rapids, Minnesota

President & Chief Executive Officer
Mesaba Aviation, Inc.

Philip L. Swenson
Grand Rapids, Minnesota

Secretary & Assistant to President
Mesaba Aviation, Inc.

Rodney G. Clark
Grand Forks, North Dakota

Medical Doctor
Grand Forks, North Dakota

M. C. Lund
Denver, Colorado

Vice President
Frontier Services, Inc.

Director — Air Cargo, Inc.
Denver, Colorado

William G. Ness*
Thief River Falls, Minnesota

Chief Executive Officer
Arctco, Inc.
Thief River Falls, Minnesota

Director — Northern State Bank
Thief River Falls, Minnesota

Mervin P. Prestebak*
Thief River Falls, Minnesota

Farmer and Contractor

Director — Norwest Bank
Thief River Falls, Minnesota

Earl W. Dagg
Thief River Falls, Minnesota

Medical Doctor
Thief River Falls, Minnesota

Director — Norwest Bank
Thief River Falls, Minnesota

*Member — Stock Option Committee

OFFICERS

Robert D. Swenson
President & Chief Executive Officer

Allan A. Hann
Vice President — Marketing and Customer Services

David K. Knudson
Vice President & Treasurer

Philip L. Swenson
Secretary and Assistant to the President