MESABA AVIATION, INC.
ANNUAL REPORT

FOR THE FISCAL YEAR ENDED
MARCH 31, 1984

MESABA AVIATION, INC.

Mesaba presently provides regional airline passenger and freight service to seventeen cities in Iowa, Minnesota, Nebraska, North Dakota and South Dakota, as well as general aviation and travel services from its facilities 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 airline services to Minnesota and surrounding states for over eleven years; on a limited basis by a predecessor company through March, 1981, and on an expanded basis since April, 1981, by Mesaba Aviation, Inc.

As of June 1, 1984, our Company operated a fleet of seven 15-passenger prop jet Beech 99 aircraft providing 57,124 scheduled miles and 491 scheduled departures per week. In fiscal 1984 we flew 1,944,175 miles and carried 56,534 passengers.

Mesaba recently purchased two Fokker F27 Series 200 aircraft. These pressurized jet prop 44 passenger aircraft will be placed in scheduled airline service in July, 1984.

Mesaba currently employs approximately 150 people, and their commitment, hard work and specialized training continue to help our Company provide quality airline service.

During the summer of 1984, Mesaba is expanding its maintenance and operations programs at the Minneapolis/Saint Paul International Airport to accommodate the addition of the Fokker aircraft.

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ABOUT THE COVER

The picture of one of our recently acquired Fokker F27 Friendship aircraft was taken in early April, 1984 at 12,000 feet in blue sky above the clouds covering Minneapolis/Saint Paul.

HIGHLIGHTS

Dollars in thousands, except per share figures.

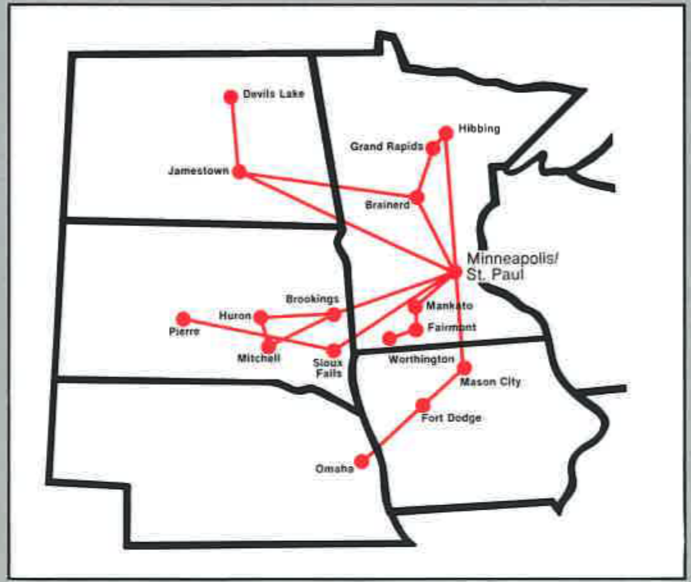
FINANCIAL

	1984	1983	1982
Operating revenues	**$6,043**	$4,048	$1,587
Operating expenses	**$5,274**	$3,682	$1,694
Operating income (loss)	**$ 769**	$ 366	$ (107)
Net income (loss) before extraordinary credit	**$ 425**	$ 120	$ (178)
Extraordinary credit	**$ -0-**	$ 68	$ -0-
Net income (loss)	**$ 425**	$ 188	$ (178)
Net income (loss) per share	**$ 0.19**	$ 0.14	$(0.16)
Working capital	**$1,163**	$1,377	$ 36
Stockholders' equity	**$2,827**	$2,396	$ 683
Stockholders' equity per share	**$ 1.34**	$ 1.14	$ .57

OPERATING

	1984	1983	1982
Revenue passengers carried	**56,534**	31,720	10,527
Revenue passenger miles (000)	**10,572**	5,572	1,409
Available seat miles (000)	**29,163**	16,581	4,684
Passenger load factors	**36.3%**	33.6%	30.1%
Scheduled miles flown (000)	**1,944**	1,084	311
Departures	**19,506**	12,974	4,136

MESABA AIRLINES ROUTE MAP



GREETINGS TO OUR STOCKHOLDERS, EMPLOYEES AND FRIENDS:

Mesaba had an excellent year in fiscal 1984. Compared with our profitable fiscal 1983, revenues increased 49% to $6,043,071, passengers increased 78% to 56,534 and most importantly, net income increased 127% to $425,460. Even though we accomplished this successful growth largely with internally generated funds, we reported $1,162,615 of working capital and $1,213,502 of short term investments on March 31, 1984.

Much of the year's growth occurred during December, 1983, when we began airline service between Minneapolis/Saint Paul, Devils Lake and Jamestown, North Dakota and Minneapolis/Saint Paul, Sioux Falls and Pierre, South Dakota. The full effect of these new markets will fully impact revenues and net earnings in fiscal 1985 since this growth occurred later in the year. Mesaba Airlines now provides scheduled passenger and freight services to seventeen cities in the five states of Iowa, Minnesota, Nebraska, North Dakota and South Dakota.

During fiscal 1984, our company intensified its commitment to become a major competitive force in the regional airline system and provide the finest in regional services. We signed purchase agreements for two Fokker F27 Series 200 Friendships in February and took delivery of these two recently refurbished aircraft in March and May of 1984. These pressurized jet prop aircraft are configured for 44 passengers, have excellent cargo capacity and feature wide-body interior comfort with stand-up head room, lavatory and galley with inflight services. These new aircraft will compliment our existing Beachcraft 99 fleet.

Since November of 1983, Mesaba personnel have been hard at work readying to put these F27's into service. The detailed and extensive process of preparing manuals, coordinating and training flight, maintenance, dispatch and ground crews, as well as procuring and planning for all of the support equipment and spare parts, have been accomplished and the first aircraft is scheduled to begin service on our Minneapolis/Saint Paul – Sioux Falls – Pierre route in July. To accomplish this, we will have received certification by the Federal Aviation Administration as a "Domestic Air Carrier", the same status as other regional and major airlines flying aircraft with more than thirty passenger seats. The proficiency, expertise and dedication of our employees continues to be the major factor in this significant start-up project being successfully completed on a timely and reasonable cost basis.

The financing of these aircraft, consisting of a $3,700,000 five-year term loan, has been provided by Norwest Bank Minneapolis, N.A. and the additional financing for parts procurement and start-up costs will be provided with a short-term line of credit and some of our own working capital. We have purchased these aircraft in place of the de Havilland Dash-8 aircraft that we previously had on order. The selection of the F27 Friendships provide us with larger aircraft earlier at less cost.

To accommodate our future growth and support our growing F27 and Beechcraft 99 aircraft fleets, we recently leased at reasonable rates an additional 19,000 feet of hangar space and 15,000 square feet of office and shop space at the Minneapolis/Saint Paul airport. Since Minneapolis/Saint Paul is Mesaba's hub airport, our operations and maintenance programs are being expanded at this location to increase the operating efficiency of these programs. Modifications to a hangar door will be made to allow the large F27 Friendships and the Beechcraft 99 fleet to be maintained there. In addition our excellent offices and hangar facilities in Grand Rapids, Minnesota, will continue to be well utilized by our accounting, reservations, travel agency, fixed base operation personnel and some Beechcraft maintenance personnel.

With our F27 program well underway and additional operations space leased at our hub airport, we are in excellent position for further growth in fiscal 1985 and the years to come. We believe that future markets capable of supporting additional F27 aircraft will continue to open up in our region and that we will be ready for these opportunities.

The commitment of our people, continued support of our passengers, the new F27 Friendships, our reliable Beechcraft 99 jet prop fleet, our financial strength and history of offering dependable on-time airline service will keep Mesaba a tough competitor in our regional marketplace.

We invite you to attend our Company's Annual Shareholder Meeting on August 10, 1984, thank you for your continued support and look forward to seeing you aboard future flights.

Best regards,

Robert D. Swenson
President & Chief Executive Officer

OUR COMPANY NOW AND READYING FOR THE FUTURE.

PASSENGER SERVICES

Our airline offers attractive fares, interline ticketing, interline baggage transfers and convenient connecting schedules with the major airlines to make airline travel enjoyable. We are a co-host with Republic Airlines on their computerized Escort reservation system which 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. Our employees are dedicated professionals who extend their warmth and sincerity to the traveling public. Our airline has the employees and system in place to serve our passengers of today as we ready for the growth of tomorrow.

IN-HOUSE COMPUTER SYSTEM

In September, 1983, Mesaba installed an IBM Model 36 computer for use in accounting, maintenance and flight operations. The accounting systems have been implemented successfully and have been in use since January, 1984. The maintenance and flight operations systems will be operational this summer. This computer system not only handles our needs for the present, but has ample growth potential to serve us as we grow in the future.

ADDITION OF LARGER AIRCRAFT

In February, 1984, Mesaba made a commitment to purchase from a company in England two Fokker F27 Series 200 aircraft to be put into scheduled airline service in July, 1984. These 44 passenger jet-prop aircraft feature stand-up head room, pressurization, comfortable seats, a galley and a lavatory. This is an exciting step for our Company, and a very important stage in our growth process. In order to operate these aircraft, our Company will receive certification by the Federal Aviation Administration as a "Domestic Air Carrier", the same as other regional and major airlines flying aircraft with more than 30 passenger seats. All of our employees have been and are working hard for our Company to become certified as a domestic air carrier and begin operating these aircraft in scheduled airline service. The many hours of training, operations manuals preparation, and proving runs are in the final stages and certification should be achieved in July, 1984. The addition of these aircraft is significant for our Company as it virtually doubles our existing airline seat capacity and gives the Company a competitive edge over many regional and commuter carriers in our region.

COMPANY MAINTENANCE AND OPERATIONS PROGRAMS EXPANDING IN MINNEAPOLIS/SAINT PAUL

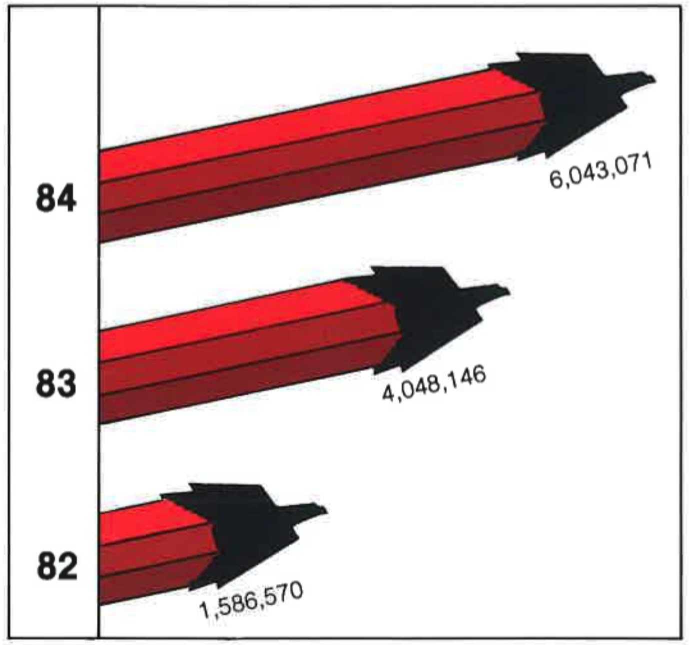
In July and August of 1984, the Company will expand its maintenance and operations programs at the Minneapolis/Saint Paul International Airport and some personnel will be relocated from Grand Rapids, Minnesota to Minneapolis/Saint Paul, Minnesota. Mesaba has leased approximately 34,000 square feet of office, shop and hangar space at the Minneapolis/Saint Paul International Airport to accommodate the larger Fokker aircraft, the Beechcraft 99 fleet, and certain Company personnel. Our Grand Rapids facility will continue to be well utilized by our accounting, reservations, travel agency, fixed base operations personnel and some Beechcraft 99 maintenance personnel. This step is important to our Company's successful growth. With this significant addition of office, shop and hangar space, our Company is poised for continued growth in the near future.

READYING FOR THE FUTURE

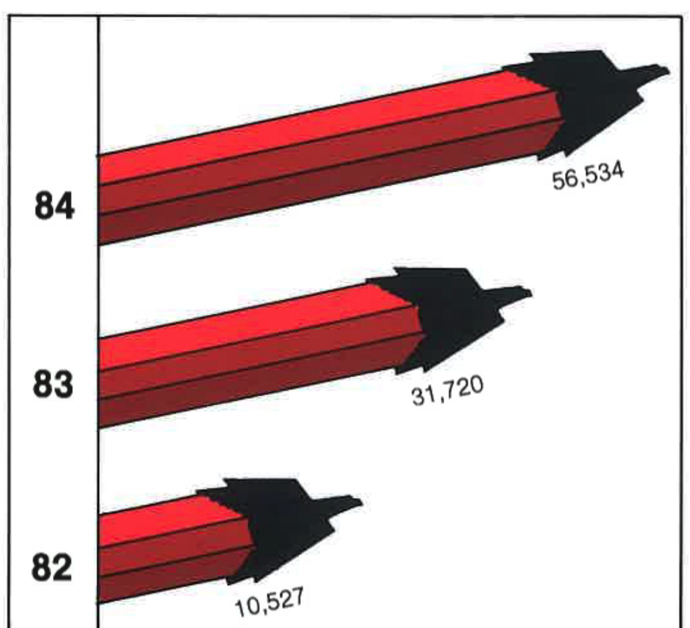
Our Company is ready now to successfully accommodate the addition of our Fokker F27 aircraft, and we have the components to successfully take on additional growth; highly trained and dedicated people at all levels, experience, a solid financial base, the facilities, and excellent aircraft appropriately sized for our markets.

FINANCIAL REVIEW

REVENUES



PASSENGERS



FISCAL YEAR 1984 COMPARED WITH FISCAL YEAR 1983

Record revenues and net earnings were achieved in fiscal 1984. Mesaba commenced airline service to four new cities in fiscal 1984 and increased service to four other cities. Our Company began scheduled airline service in the cities of Devils Lake and Jamestown, North Dakota to Minneapolis/Saint Paul on December 1, 1983 and began service in the cities of Pierre and Sioux Falls, South Dakota to Minneapolis/Saint Paul on December 15, 1983. In addition, Mesaba increased its service to Fort Dodge and Mason City, Iowa in May, 1983, and Brainerd and Hibbing, Minnesota in December, 1983. Mesaba also served the cities of Fort Dodge and Mason City, Iowa, connecting such cities to the hubs of Minneapolis/Saint Paul and Omaha for all of fiscal 1984, as compared to only three and one-half months in fiscal 1983.

The revenue increase of 49% to $6,043,071 in fiscal 1984 is primarily attributable to the addition of four cities to our airline system, increased airline service to four other cities, and an improved economy. Of this revenue increase, $1,427,354 resulted from an increase in passenger revenue and $654,945 was from public service revenues received by our Company for air service to essential air service communities.

Due to the expiration of certain of the subsidy contracts under which it was operating, Mesaba is presently serving five essential air service communities (Fort Dodge, and Mason City, Iowa, and Fairmont, Mankato, and Worthington, Minnesota) under temporary CAB service authority. While operating under such temporary service authority, Mesaba continues to receive subsidy payments for service to such cities. Mesaba has filed proposals to continue serving these communities for additional two-year terms, as have other air carriers. The CAB will make final carrier selection for these cities in the near future. Management of Mesaba believes that the quality of airline service that we are continuing to provide to these communities and the support that we are continuing to receive from these communities will be important factors considered by the CAB in its final carrier selection process.

Operating expenses in fiscal 1984 increased by 43% to $5,273,885. This growth is principally attributable to the expansion of Mesaba's airline operations in fiscal 1984. Management believes that with expansion of operations, the Company is realizing economies of scale in more efficient utilization of aircraft and personnel.

Net non-operating expenses decreased significantly in fiscal 1984 by $192,337 from $178,063 in fiscal 1983 to a credit of $14,274 in fiscal 1984. Such decrease is attributable to reduced interest costs and interest income from the investment of the proceeds of Mesaba's public stock offering in March, 1983.

For financial reporting purposes in fiscal 1984, Mesaba made a provision for deferred income taxes in the amount of $358,000 at a rate of 46%. This compares to fiscal 1983 in which the provision for income taxes of $68,000 was totally offset by an extraordinary credit from the utilization of net operating loss carryforwards. At March 31, 1984, Mesaba had a net operating loss carryforward for tax reporting purposes of approximately $206,000 and an investment tax credit carryforward of approximately $89,000. These carryforwards expire in varying amounts from 1997 to 1999 and are available to offset future taxes payable.

Mesaba's 1984 net income of $425,460 or $.19 per share on revenues of $6,043,071 compares with net income of $187,721 or $.14 per share on revenues of $4,048,146 in fiscal 1983.

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 significant 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 contributing to 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.

LIQUIDITY & CAPITAL RESOURCES

At March 31, 1984, Mesaba had working capital of $1,162,615 compared to working capital of $1,376,624 at March 31, 1983. The $214,009 decrease in working capital in fiscal year 1984 results from expenditures toward expansion of services. In addition to working capital as stated, Mesaba had short term investments in the amount of $1,213,502 at March 31, 1984. Significant applications of working capital in fiscal 1984 include: approximately $80,000 of start-up costs to begin airline service in Devils Lake and Jamestown, North Dakota, and Pierre and Sioux Falls, South Dakota; approximately $135,000 to purchase a Beech 99 aircraft for use in the new North Dakota and South Dakota markets; $300,000 for deposits on two Fokker F27 aircraft; and approximately $70,000 for start-up costs for the Fokker F27 aircraft project.

In fiscal 1984 Mesaba leased one Beech 99 aircraft from another airline under a flexible two year operating lease with an option to return the aircraft on 60 days notice, and purchased one Beech 99 aircraft for approximately $405,000, $270,000 of which was financed by Norwest Bank Minneapolis, N.A. over 60 months at the prime interest rate plus 1%. Mesaba now has a fleet of seven Beech 99 aircraft, five of which are owned, all subject to mortgages, and two of which are leased.

In addition, Mesaba made a decision to add two larger aircraft to its airline fleet, and after a thorough analysis of aircraft types, purchased two Fokker F27 Series 200 aircraft which will be placed in airline service in fiscal 1985. These aircraft were purchased in place of the de Havilland DHC-8 aircraft which were previously on order. The DHC-8 aircraft order has been cancelled and all deposits have been refunded to the Company. The cost of acquiring and commencing operation with the Fokker aircraft, including aircraft costs, start-up costs, spare parts, ground support equipment and incremental accounts receivable financing is estimated to be approximately $5,000,000. The financing for this project is being provided by various sources; a $3,700,000 five year term loan with Norwest Bank Minneapolis, N.A.; a demand line of credit of approximately $800,000 from Norwest Bank Minneapolis, N.A. and Grand Rapids State Bank, together; and internally generated funds and short-term investments of the Company. As of March 31, 1984, $1,700,000 had been advanced by Norwest Bank on the term loan. The $3,700,000 term loan is collateralized by the Fokker aircraft and related spare parts and by second mortgages on our fleet of the five owned Beech 99's. The term loan agreement contains certain restrictive covenants which require maintenance of certain levels of tangible net worth, net working capital, and certain financial ratios and which restrict the amount of additional debt which the Company may incur. The term loan is payable quarterly beginning October 1, 1984 on a gradually increasing payment scale over five years with a large balloon payment at the end of five years. The interest is payable monthly at a rate or rates which will be based on the prime rate of interest plus 1%, a fixed long term interest rate, and a rate based on the rate of return on 30, 60 and 90 day certificates of deposit. The demand line of credit is collateralized by inventories (excluding Fokker spare parts), supplies, accounts receivable and miscellaneous equipment and has a ceiling of approximately $800,000, based on eligible receivables and inventories and certain restrictive covenants of the term loan agreement. The interest rate on this line of credit is the prime rate of interest at the participating banks.

Mesaba has made a commitment to make a hangar door modification to its newly leased maintenance facilities at the Minneapolis/Saint Paul International Airport in fiscal 1985 which is estimated to cost approximately $120,000. This cost will be financed from internally generated funds and present short-term investments.

Management of the Company believes that it will have adequate working capital for fiscal 1985 for both continuing operations and anticipated expansions. The principal sources of working capital will be internally generated funds, cash and other liquid assets on hand at March 31, 1984 and the line of credit discussed above.

EFFECTS OF INFLATION

Mesaba's results of operation for fiscal 1984 have not been significantly affected by inflation.

BALANCE SHEETS
AS OF MARCH 31,

ASSETS

	1984	1983
CURRENT ASSETS:		
Cash	$ 43,115	$ 31,670
Short-term investments	1,213,502	1,318,000
Accounts receivable	886,137	520,089
Inventories-		
Service parts	328,277	261,106
Aircraft held for resale	61,911	—
Prepaid expenses	13,268	32,329
Total current assets	2,546,210	2,163,194
PROPERTY AND EQUIPMENT:		
Flight equipment	4,384,587	1,977,717
Buildings and improvements	187,233	179,089
Furniture and equipment	394,072	174,456
Accumulated depreciation and amortization	(753,877)	(380,049)
Total property and equipment	4,212,015	1,951,213
OTHER ASSETS, principally deferred preoperating costs, being amortized, and aircraft deposits	312,936	136,776
	$7,071,161	$4,251,183

LIABILITIES AND STOCKHOLDERS' EQUITY

	1984	1983
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 572,854	$ 232,100
Accounts payable	253,782	186,738
Accrued liabilities-		
Public service subsidies	157,025	131,500
Payroll and other	240,946	125,502
Deferred ticket revenue	158,988	110,730
Total current liabilities	1,383,595	786,570
LONG-TERM DEBT, net of current maturities	2,502,815	1,068,773
DEFERRED INCOME TAXES	358,000	—
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value; 5,000,000 shares authorized, 2,107,604 and 2,100,000 shares issued and outstanding	21,076	21,000
Paid-in capital	2,370,096	2,364,721
Retained earnings	435,579	10,119
Total stockholders' equity	2,826,751	2,395,840
	$7,071,161	$4,251,183

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

MESABA AVIATION, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31,

	1984	1983	1982
OPERATING REVENUES:			
Passenger	$3,134,911	$1,707,557	$ 555,734
Public service revenues	2,231,300	1,576,355	235,503
Aircraft sales and services	433,951	601,839	728,742
Freight and other	242,909	162,395	66,591
Total operating revenues	6,043,071	4,048,146	1,586,570
OPERATING EXPENSES:			
Flying operations	1,751,552	1,129,557	332,294
Maintenance	871,072	412,825	103,247
Aircraft and traffic servicing	836,339	588,489	202,249
Reservations, sales and advertising	528,702	365,732	87,029
Aircraft sales and services	394,699	562,134	694,020
General and administrative	524,226	314,530	147,429
Depreciation and amortization	367,295	309,095	127,636
Total operating expenses	5,273,885	3,682,362	1,693,904
Operating income (loss)	769,186	365,784	(107,334)
NONOPERATING EXPENSE (INCOME):			
Interest expense	155,050	213,030	109,335
Interest income	(123,220)	(8,954)	(28,276)
Other, net	(46,104)	(26,013)	(10,791)
Total nonoperating expense (income), net	(14,274)	178,063	70,268
Income (loss) before income taxes and extraordinary item	783,460	187,721	(177,602)
PROVISION FOR INCOME TAXES	358,000	68,000	—
Net income (loss) before extraordinary item	425,460	119,721	(177,602)
EXTRAORDINARY CREDIT - Income tax benefit from utilization of net operating loss carryovers	—	68,000	—
Net income (loss)	$ 425,460	$ 187,721	$(177,602)
INCOME (LOSS) PER SHARE:			
Before extraordinary credit	$0.19	$0.09	$(0.16)
Extraordinary credit	—	0.05	—
Net income (loss) per share	$0.19	$0.14	$(0.16)

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED MARCH 31,

	1984	1983	1982
SOURCES OF WORKING CAPITAL:			
Net income (loss) before extraordinary credit	**$ 425,460**	$ 119,721	$ (177,602)
Items not affecting working capital -			
Depreciation	**312,163**	229,817	115,136
Amortization of deferred maintenance costs	**224,091**	76,469	13,792
Amortization of preoperating costs	**55,132**	79,278	12,500
Deferred income taxes	**358,000**	—	—
Total working capital provided (used) by operations	**1,374,846**	505,285	(36,174)
Extraordinary credit	**—**	68,000	—
Sale of common stock	**5,451**	1,525,421	273,070
Additional borrowings during the year	**2,050,332**	276,873	795,347
Sale of property and equipment	**8,383**	36,944	141,857
Total sources of working capital	**3,439,012**	2,412,523	1,174,100
USES OF WORKING CAPITAL:			
Purchase of property and equipment	**2,805,439**	705,812	990,867
Reduction of long-term debt	**616,290**	283,024	206,927
Increase in other assets	**231,292**	82,688	119,261
Total uses of working capital	**3,653,021**	1,071,524	1,317,055
Increase (decrease) in working capital	**$ (214,009)**	$1,340,999	$ (142,955)
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
Cash and short-term investments	**$ (93,053)**	$1,325,499	$ (263,171)
Accounts receivable	**366,048**	321,124	106,627
Inventories	**129,082**	(150,911)	112,124
Prepaid expenses	**(19,061)**	(35,334)	34,654
Notes payable	**—**	153,536	110,061
Current maturities of long-term debt	**(340,754)**	(57,831)	(85,155)
Other current liabilities	**(256,271)**	(215,084)	(158,095)
Increase (decrease) in working capital	**$ (214,009)**	$1,340,999	$ (142,955)

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED MARCH 31, 1982, 1983 and 1984

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Retained Earnings (Deficit)	Total
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
Sale of common stock under stock option plan	7,604	76	5,375	—	5,451
Net income	—	—	—	425,460	425,460
BALANCE, MARCH 31, 1984	2,107,604	$21,076	$2,370,096	$ 435,579	$2,826,751

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

(1) Business —

Mesaba Aviation, Inc. (Mesaba) is primarily a regional air carrier providing scheduled passenger and air freight service to 17 cities in Iowa, Minnesota, Nebraska, North Dakota and South Dakota under the name of Mesaba Airlines. In connection with the operation of larger aircraft as described in Note 2, Mesaba requires and has applied for an additional operating certificate as a "Domestic Air Carrier" from the Federal Aviation Administration (FAA).

(2) Summary of Significant Accounting Policies —

Short-Term Investments:

Short-term investments consist of savings certificates, certificates of deposit and commercial paper, stated at cost which approximates market.

Inventories:

Inventories consist of aircraft service parts, fuel and aircraft held for resale 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 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 for engine usage. 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.

Development and Pre-Operating Costs:

The costs of developing new routes and certain pre-operating costs incurred to start up new routes are deferred and amortized over two years. In addition, certain pre-operating costs have been incurred in connection with the introduction and certification process for a new type of aircraft (Fokker F27). These costs are deferred and will be amortized over five years when this new type of aircraft is placed in service in fiscal 1985.

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:

Net income (loss) per share has been computed based upon the weighted average number of common and equivalent shares outstanding during each year. The equivalent shares include the net additional shares which would be issuable upon the exercise of stock options assuming that the Company used the proceeds received to purchase additional shares at market value (the "treasury stock" method). The weighted average common and equivalent shares outstanding were 2,268,022 in 1984, 1,344,664 in 1983 and 1,110,231 in 1982.

Reclassifications:

Certain reclassifications have been made to the accompanying 1983 and 1982 financial statements to conform with the 1984 presentation.

(3) Debt —

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

	March 31, 1984	March 31, 1983
Note payable to bank, interest rate of prime plus 1% (12.5% at March 31, 1984), due in varying quarterly principal installments through June 1989 plus monthly interest payments, collateralized by aircraft	$1,700,000	$ —
Note payable to bank, interest rate of prime plus 1% (12.5% at March 31, 1984), due in monthly principal installments of $11,734 to March 1988, collateralized by aircraft	563,222	704,028
Note payable to a foundation, 10%, quarterly principal payments of $10,000 plus interest through March 1985, balance of $270,000 due in June 1985, collateralized by aircraft	310,000	346,250
Note payable to bank, interest rate of prime plus 1% (12.5% at March 31, 1984), due in monthly principal installments of $4,500 plus interest through September 1988, collateralized by aircraft	243,000	—
Note payable to Lowell Swenson, Chairman of the Board, interest rate of prime plus 1½% (13% at March 31, 1984), due in monthly installments of $4,030 through February 1988, collateralized by aircraft	189,403	237,761
Other	70,044	12,834
	3,075,669	1,300,873
Less — Current maturities	(572,854)	(232,100)
Total long-term debt	$2,502,815	$1,068,773

In March 1984, the Company entered into an agreement whereby Mesaba may borrow up to $3,700,000 for the purchase of two Fokker F27 aircraft. As of March 31, 1984, the Company has borrowed $1,700,000 under the loan agreement to purchase one Fokker F27 aircraft. On May 9, 1984, the Company purchased a second Fokker F27 aircraft and borrowed an additional $1,700,000 under the loan agreement. Under this agreement, the debt is collateralized by the acquired aircraft and related parts and equipment, and a secondary security interest in all other commuter aircraft owned by Mesaba.

Operating restrictions placed on the Company by various notes listed above include the following covenants relating to –

1) requiring certain levels at which tangible net worth, net working capital and other financial ratios must be maintained;
2) restricting the amount of additional debt;
3) retaining present management and ownership control; and
4) retaining the base of operations in Grand Rapids, Minnesota.

Mesaba has complied with the requirements of these financial arrangements as of March 31, 1984.

As of March 31, 1984, the portion of long-term debt due in the five subsequent years is as follows:

1985	$ 572,854
1986	1,045,007
1987	814,564
1988	610,534
1989	32,710

(4) Income Taxes —

Mesaba provides deferred taxes for all timing differences between financial and income tax reporting. The provision for income taxes for the years ended March 31, 1984 and 1983 are comprised of the following elements:

	1984	1983
Timing differences classified as current—		
Accrued expenses not deductible for tax purposes	$(50,000)	$(22,000)
Timing differences classified as long-term—		
Accelerated depreciation	246,000	77,000
Deferred preoperating costs	53,000	(15,000)
Deferred maintenance costs	29,000	3,000
Utilization of operating loss carryforwards for tax reporting purposes	102,000	27,000
Amortization of investment tax credits not realized for tax reporting purposes	(22,000)	(2,000)
Total deferred provision for income taxes	$358,000	$ 68,000

The difference between the statutory federal income tax rate and the effective tax rate for the years ended March 31, 1984 and 1983 are as follows:

	1984	1983
Statutory federal tax rate	46.0%	46.0%
State taxes, net of federal benefit	5.1	5.4
Amortization of deferred investment tax credits	(2.8)	(6.0)
Impact of graduated federal tax rate	(2.6)	(10.3)
Other	—	1.1
	45.7%	36.2%

No provision for income taxes was recorded in 1982 as the Company incurred a net loss of $177,602.

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, 1984, Mesaba had net operating loss carryforwards of $206,000 and investment tax credit carryforwards of $89,000 for federal tax reporting purposes. These carryforwards expire in varying amounts from 1997 to 1999 and are available to offset future taxes payable.

(5) Leases —

Mesaba leases its corporate headquarters and certain terminal facilities under operating leases which provide for future minimum rental payments of $57,073 in 1985 and $26,345 in 1986 and thereafter.

Mesaba also leases certain aircraft under operating leases that provide for future minimum rental payments of $150,000 in 1985 and $51,500 in 1986. Rent expense under all of the above mentioned operating leases totalled $306,945 for 1984, $94,400 for 1983 and $10,600 for 1982.

(6) Transactions with Stockholders and Affiliated Company —

In the normal course of business, Mesaba purchased aircraft and repair parts from Northern Eagle Airways, Inc., a company owned by Lowell Swenson, who is also the Chairman of the Board and a director of Mesaba. Northern Eagle, which has since sold its operations, was a fixed base operation located in Thief River Falls, Minnesota. During 1984, 1983 and 1982, the Company made purchases of approximately $55,000, $9,000, and $455,000 respectively from Northern Eagle. Also, the Company sold fuel and repair services to Northern Eagle. Revenues from sales totaled $8,000, $17,000, and $23,000 in 1984, 1983 and 1982, respectively. In addition, during 1983 and 1982, Mesaba paid interest of approximately $4,000 and $16,000 on short-term notes payable to Northern Eagle.

(7) Stock Options —

In September 1982, the Company adopted stock option plans for key employees and directors and, as of March 31, 1984, has reserved 325,000 shares of common stock for sale to participants. Under the plans, options are granted by the Stock Option Committee of 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 1984 are as follows:

	Shares Under Option
Options outstanding, beginning of year	209,995
Granted —	
$3.38 per share	29,000
$3.69 per share	10,000
Exercised —	
$0.72 per share	(7,604)
Options outstanding, end of year	241,391

AUDITORS' REPORT

To the Stockholders of Mesaba Aviation, Inc.:

We have examined the balance sheets of MESABA AVIATION, INC. (a Minnesota corporation) as of March 31, 1984 and 1983, and the related statements of operations, changes in stockholders' equity, and changes in financial position for each of the three years in the period ended March 31, 1984. 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, 1984 and 1983, and the results of its operations and the changes in its financial position for each of the three years in the period ended March 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Saint Paul, Minnesota
May 11, 1984

SUPPLEMENTAL STOCKHOLDER INFORMATION

FORM 10-K REPORT

For a copy of the Form 10-K Report as filed with 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 listed for trading on NASDAQ under the symbol of MESA since June 30, 1983. From March 7, 1983 through June 29, 1983, Mesaba's stock was 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.

	Bid	
	High	Low
March 7-March 31, 1983	2-3/8	2
Three Months ended June 30, 1983	4-5/8	2-1/8
Three Months ended Sept. 30, 1983	4-3/4	3-1/8
Three Months ended Dec. 31, 1983	4	3-1/4
Three Months ended March 31, 1984	4	3-1/8

No cash dividends have been paid by Mesaba to date.

On June 15, 1984, our Company had 786 shareholders of record.

MESABA AVIATION, INC.

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
Baudette, Minnesota
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
Apple Valley, Minnesota
Secretary & Assistant to President
Mesaba Aviation, Inc.

Rodney G. Clark
Grand Forks, North Dakota
Medical Doctor
Grand Forks, North Dakota

M. C. Lund
Wheatridge, Colorado
President
Frontier Horizon, Inc.
Denver, Colorado
Director-Air Cargo, Inc.
Denver, Colorado

Rodger T. Munt
Clifton, Virginia
Vice President, Commercial
Westland, Inc.
Arlington, Virginia

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
Thief River Falls, Minnesota
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

Jeffrey A. Claypool
Vice President-Flight Operations

Allan A. Hann
Vice President-Marketing and Customer Services

Bernhard C. Loegering
Vice President-Maintenance

David K. Knudson
Vice President & Treasurer

Philip L. Swenson
Secretary & Assistant to the President

ANNUAL MEETING
Friday, August 10, 1984
3:00 p.m.
Rodeway Inn
Bloomington, Minnesota

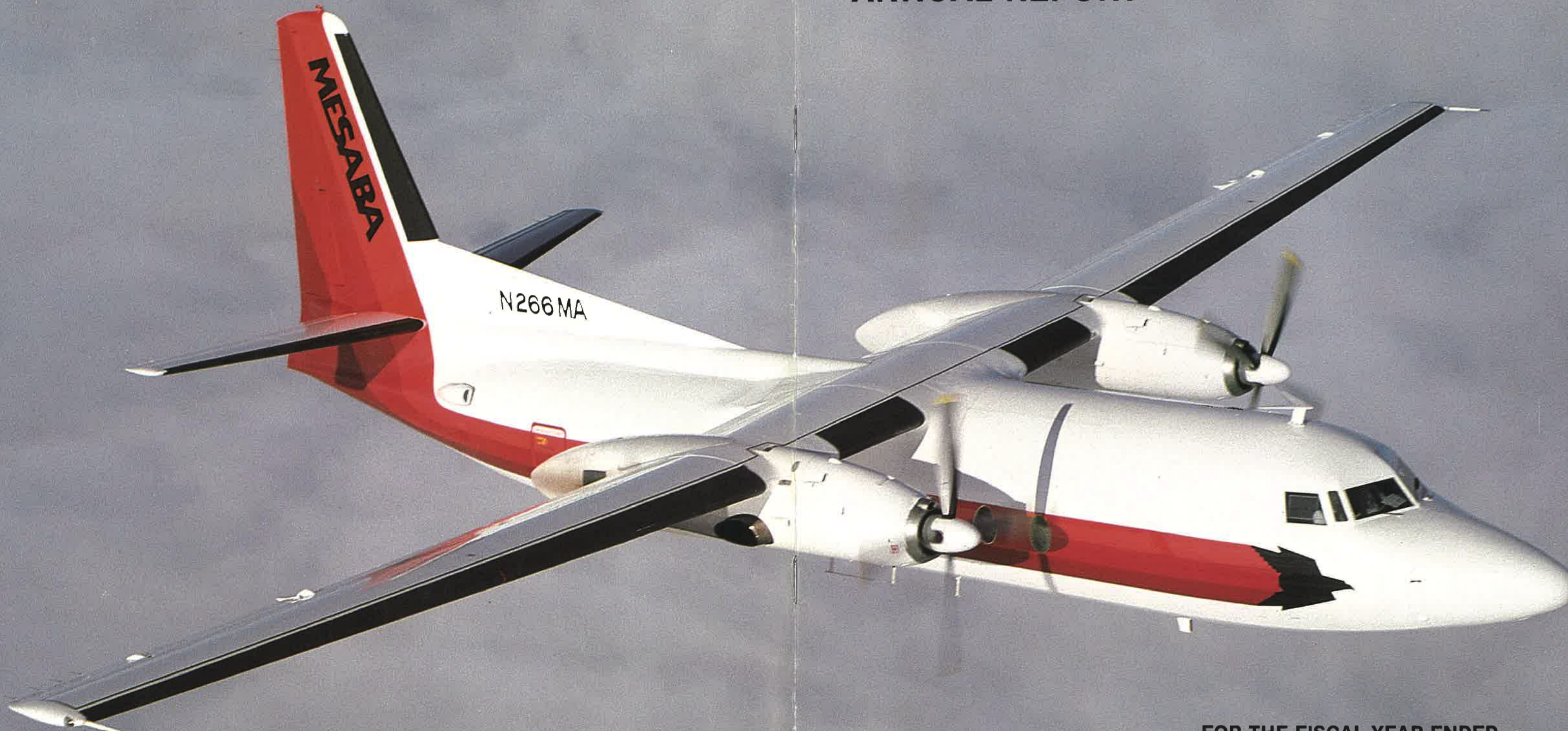
AUDITORS
Arthur Andersen & Co.
Saint Paul, Minnesota

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

MESABA AVIATION, INC.
2002 Airport Road
Grand Rapids
Minnesota 55744
(218) 326-6657

MESABA AVIATION, INC.
ANNUAL REPORT



FOR THE FISCAL YEAR ENDED
MARCH 31, 1984