

BALANCE SHEET

As At: September 30, 2000

Schedule B-1

Air Carrier:

Operation : Domestic NCD

ACCT#	DESCRIPTION	AMOUNT
ASSETS		
CURRENT ASSETS		
1010	Cash	712,072
1100	Short-Term Investments	100,000
1200	Notes Receivable	0
1270	Accounts Receivable	5,266,225
1290	Less Allow. for Bad Debts	169,322
1299	Net Notes & Accounts Receivable	5,096,903
1399	Net Spare Parts & Supplies	1,505,270
1410	Prepaid Items	73,364
1420	Other Current Assets	59,696
1499	Total Current Assets	7,547,305
INVESTMENTS IN SPECIAL FUNDS		
1510	Inv. in Associated Companies	181,461
1530	Other Investments & Receivables	0
1550	Special Funds	0
1599	Total Inv. & Special Funds	181,461
OPERATING PROPERTY & EQUIPMENT		
1609	Flight Equipment	23,735,688
1649	Ground-Property and Equipment	8,850,307
1668	Less Allowance for Depreciation	17,191,013
1675	Property & Equipment - Net	15,394,982
1679	Land	0
1685	Purchase Dep. & Adv. Payments	0
1689	Construction Work-in-progress	0
1695	Leased Property - Cap. Leases	0
1696	Accum. Amort. Capital Leases	0
1699	Total Oper. Prop. & Equipment	15,394,982
NONOPERATING PROP. & EQUIPMENT		
1791	Less Allow. for Depr. - Nonop.	1,725,392
1792	Net Nonoperating Prop. & Eqmt.	1,725,392
1799		0
OTHER ASSETS		
1820	Long-term Prepayments	0
1830	Unamort. Dev. & Preop. Costs	0
1890	Other Assets and Def. Charges	0
1895	Total Other Assets	0
1899	TOTAL ASSETS	23,123,748

BALANCE SHEET

As At: September 30, 2000

Air Carrier:

Schedule B-1

Operation : Domestic NCD

ACCT# DESCRIPTION

AMOUNT

	LIABILITIES & STOCKHOLDERS' EQ.	
	CURRENT LIABILITIES	
2000	Curr. Maturities of L-T Debt	1,232,663
2005	Notes Payable - Banks	0
2015	Notes Payable - Others	1,126,006
2021	Trade Accts. Payable	2,890,161
2025	Accts. Payable - Other	0
2080	Curr. Oblig. Under Cap. Leases	0
2110	Accrued Salaries & Wages	487,546
2120	Accrued Vacation Pay	445,203
2125	Accrued Interest	19,512
2130	Accrued Taxes	283,322
2140	Dividends Declared	0
2160	Air Traffic Liability	0
2190	Other Current Liabilities	87,101
2199	Total Current Liabilities	6,571,514
	NONCURRENT LIABILITIES	
2210	Long-term Debt	7,148,348
2240	Advances from Assoc. Companies	0
2250	Pension Liability	0
2280	Noncurrent Obgl.-Capital Leases	0
2290	Other Noncurrent Liabilities	0
2299	Total Noncurrent Liabilities	7,148,348
	DEFERRED CREDITS	
2340	Deferred Income Taxes	0
2345	Deferred Investment Tax Credits	0
2390	Other Deferred Credits	0
2399	Total Deferred Credits	0
	STOCKHOLDERS' EQUITY	
2820	Preferred Shares Issued	0
2840	Common Shares Issued	200,000
2860	Subscribed & Unissued	0
2869	Total Capital Stock	200,000
2890	Additional Capital Invested	0
2899	Total Paid in Capital	200,000
2900	Retained Earnings	9,203,886
2959	Total Stockholders' Equity	9,403,886
2990	Less Treasury Stock	0
2995	Net Stockholders' Equity	9,403,886
2999	Total Liab. & Stockholders' Eq.	23,123,748
2820A	No. of Preferred Shares Issued	0
2840A	No. of Common Shares Issued	0

STATEMENT OF CASH FLOWS

Quarter Ended: SEPTEMBER 30, 2000
Schedule B-12

Air Carrier: Northern Air Cargo, Inc.
Operation: Domestic NCD

DESCRIPTION	AMOUNT
Net income	\$ (134,134)
Adjustments	
Depreciation and amortization	895,768
Equity in profit of joint venture	98,540
Adjustments to prior period	-
Changes in assets and liabilities	-
Accounts receivable	304,416
Prepaid expenses	171,275
Other current assets	228,745
Trade accounts payable	(506,972)
Accounts payable - other	-
Accrued salaries, wages	48,629
Accrued taxes	39,620
Other current liabilities	31,872
Vacation liability	5,206
Net cash provided by (used for) operating activities	1,182,965
Cash flows from investing activities:	
Proceeds from sales of property and equipment	-
Other assets	305,909
Purchases of property and equipment	(994,592)
Net cash provided by (used for) investing activities	(688,683)
Cash flows from financing activities:	
Distributions paid to stockholders	-
Repayments of notes payable	104,435
Repayments of long-term debt	(289,776)
Net cash provided by (used for) financing activities	(185,341)
Net increase (decrease) in cash and cash equivalents	308,941
Cash at beginning of period	503,131
Cash at end of period	\$ 812,072

STATEMENT OF OPERATIONS

Quarter Ended: September 30, 2000

Air Carrier:

Schedule P-1.2 Group I

Operation : Domestic NCD

ACCT# DESCRIPTION

AMOUNT

	OPERATING REVENUES	
3901	Transport Revenue - Passenger	0
3905	Mail	3,218,501
3906.1	Property - Freight	5,511,050
3906.2	Property - Excess Baggage	0
3907.1	Charter - Passenger	0
3907.2	Charter - Property	850,941
3919.1	Reserv. Cancellation Fees	0
3919.2	Misc. Operating Revenues	72,109
4808	Public Service Subsidy	0
4898	Transport Related	1,440,226
4999	Total Operating Revenue	11,092,827
	OPERATING EXPENSES	
5100	Flying Operations	4,117,363
5400	Maintenance	3,052,230
6900	General Services and Administration	2,601,466
7000	Depreciation & Amortization	402,475
7100	Transport Related Expenses	810,334
7199	Total Operating Expenses	10,983,868
7999	Operating Profit or Loss	108,959
	NONOPERATING EXPENSE (INCOME)	
8181	Int. Exp. (Inc.) on L-T-D & Cap. Leases	145,553
8182	Other Interest Expense (Income)	0
8185	Foreign Exchange (Gain) or Loss	0
8188.5	Capital (Gains)/Losses- Op. Prop.	-1,000
	Capital (Gains)/Losses- Other	
8189	Other Expense (Income) - Net	98,540
8199	Nonoperating Expense (Income)	243,093
8999	Income Before Income Taxes	-134,134
9100	Income Tax Expense	0
9199	Inc. Bf. Disc. Ops & Other Items	-134,134
9600	Discontinued Operations	0
9796	Extraordinary Items	0
9797	Inc. Tax Appl. To Extraord. Item	0
9799	Income Before Account. Changes	-134,134
9800	Accounting Changes	0
9899	Net Income	-134,134

NOTES TO RSPA FORM 41 REPORT

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1. Description of Business and Summary of Significant Accounting Policies

Northern Air Cargo, Inc. (the Company) was incorporated in Alaska in 1970. The Company provides scheduled and charter air cargo transportation predominantly within Alaska, utilizing eight DC-6 aircraft and three Boeing 727-100 jet freighters.

Investment in Joint Venture

The Company is a 49 percent owner in Kuukpik/Northern Air Cargo, LLC. This investment is recorded using the equity method.

Collective Bargaining Agreements

The Company's crew members have elected to be represented by the International Brotherhood of Electrical Workers (IBEW). The Company is currently negotiating in good faith with the IBEW to reach an agreement.

Management Estimates

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates.

Cash and Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist primarily of interest bearing accounts. All highly liquid investments purchased with an original maturity of less than three months are considered to be cash and cash equivalents.

Income Taxes

The Company has elected to be treated as a Subchapter S Corporation for income tax purposes. Liability for income taxes on the Company's net income is the responsibility of the Company's stockholders. Accordingly, there is no provision for income taxes in the financial statements.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Maintenance and repairs including aircraft inspections and re-certifications are charged to operating expense as incurred. The costs of additions, overhauls, and major improvements are capitalized. When an asset is sold or otherwise disposed of, its cost and accumulated depreciation, or amortization, are removed from the accounts and the resulting gain or loss is reflected in the income statement.

Depreciation on property and equipment, except for flight equipment and overhauls, is provided generally on an accelerated basis consistent with the Modified Accelerated Cost Recovery System guidelines over depreciable lives of the assets ranging from five to 39 years. Depreciation on flight equipment is provided on a straight-line basis over depreciable lives ranging from five to seven years. Overhauls of aircraft airframes are amortized on a straight-line basis over the period to the next required overhaul. Overhauls of engines are amortized

NOTES TO RSPA FORM 41 REPORT

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based on engine usage, over the period of expected use before the next required overhaul.

Spare Parts and Supplies

Included in inventory are expendable parts and supplies, which are carried at the lower of cost or market.

2. Profit Sharing and 401(K) Plans

The Company maintains an employee savings plan under the provisions of Internal Revenue Code Section 401(K). The Company can make a discretionary match of 50% of employee contributions up to a maximum of 6% of eligible compensation, all payable at year-end. The Company elected to make a discretionary match of 50% for the year ended March 31, 2000. The Company has begun accruing a 50% match for the current fiscal year.

3. Statement of Cash Flows

The Company has elected to retain its March 31 fiscal year end. As a result of this election, the Company is required to maintain an advance deposit with the Internal Revenue Service for estimated income taxes deferred by the stockholders. The deposit for the fiscal year ended March 31, 2000 of \$1,394,034 was refunded to the Company in the quarter ended June 30, 2000. There is no deposit required for the fiscal year ending March 31, 2001.

4. Major Customers

The Company derives approximately 50% of its revenue from scheduled and charter transportation services provided to the United States Postal Service (USPS). Charter services are rendered under contract not exceeding one year.

5. Leases

The Company leases land and certain facilities under long-term agreements expiring through 2007. In addition, the Company leases other facilities and equipment under various short-term agreements. Rental expense on these leases totaled approximately \$149,000 for the quarter ended September 30, 2000.

The future minimum annual lease payments from March 31, 2000 onwards under long-term non-cancelable operating leases with terms exceeding one year are as follows:

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Years Ending March 31,	Anchorage warehouse land	Anchorage airport land	Delta warehouse land	Training facility	Total
2001	21,140	11,897	70,230	32,861	136,128
2002	21,140	11,897	70,230	33,774	137,041
2003	21,140	11,897		34,426	67,463
2004	21,140	11,897		34,426	67,463
2005	21,140	11,897		14,344	47,381
Thereafter	639,485	23,794			663,279
	<u>\$ 745,185</u>	<u>\$ 83,279</u>	<u>\$ 140,460</u>	<u>\$ 149,830</u>	<u>\$ 1,118,754</u>

Sublease income totaled \$43,731 for the quarter ended September 30, 2000.

6. Long-term Debt

A summary of long-term debt at September 30, 2000 is as follows:

Promissory note payable to National Bank of Alaska
 secured by aircraft, monthly interest and
 principal payments of \$72,061, interest computed
 at 8.0%, maturing April 2005. \$ 3,310,978

Promissory note payable to National Bank of Alaska
 secured by aircraft, monthly interest and
 principal payments of \$56,477, interest computed
 at 8.0%, maturing April 2005. 2,603,143

Deed of trust note payable to National Bank of Alaska
 secured by building and property, monthly interest
 and principal payments of \$26,553, interest
 computed at 8.5%, maturing June 1, 2013. 2,466,890

Less current maturities 8,381,011
 Long-term debt, less current maturities (1,232,663)
\$ 7,148,348

NOTES TO RSPA FORM 41 REPORT

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7. Shareholder Loan

During the year ended March 31, 2000, the Company borrowed \$1,500,000 from one of its shareholders to finance various aircraft overhauls and other operating expenditures. The Company has repaid approximately \$375,000, plus interest, through September, 30, 2000. The remaining balance of approximately \$1,126,000, plus interest of 9.5% per annum, is due on demand. Management expects to repay this balance in full, with interest, by February, 2001.

8. Mail Rate Data

Mail rate information for the quarter ended September 30, 2000 is as follows

	All Types	2162	7112
	<u>Intra-Alaska Scheduled Revenue Service</u>		
Available Ton-Miles by Segment	8,808,413	4,978,927	3,829,486
Revenue Block Hours	2,516	1,956	560
Revenue Ton-Miles of Mail by Segment	1,806,346	1,079,207	727,139
Passenger Tons Enplaned	-		
Freight Tons Enplaned	6,433		
Mail Tons Enplaned	3,840		
Total Tons Enplaned	<u>10,273</u>		
	<u>System Revenue Service</u>		
Available Ton-Miles	9,430,829	5,520,844	3,909,985
Revenue Block Hours	2,785	2,213	572
Passenger Tons Enplaned	-		
Freight Tons Enplaned	8,031		
Mail Tons Enplaned	3,841		
Total Tons Enplaned	<u>11,872</u>		

9. Commitments and Contingencies

The Company leases one Boeing 727-100 jet aircraft, and provides crews, maintenance and insurance for that aircraft to an unrelated party. The contract extends to December 31, 2001, and is cancelable by either party with 30 days notice. Minimum lease revenue under this contract is approximately \$92,000 per week, subject to the performance conditions set forth in the contract.

The Company leases two DC-6 aircraft, and provides crews, maintenance and insurance for those aircraft to Northern Air Fuel, Inc., a related company by common ownership. The contract extends to March 1, 2001, and is cancelable by either party without notice. There is no minimum lease revenue under this contract.

Lease revenue under these contracts is included in transportation related revenue in the accompanying income statement.

The Company has entered into agreements with several companies, related by common ownership, to provide accounting, administration, and/or ground-handling services. Monthly revenue generated from these contracts is approximately \$8,000.

Air Carrier: Northern Air Cargo, Inc
Operation: _____
Period Ended: SEPTEMBER 30, 2000

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The Company is involved in various claims and contingencies arising out of the normal conduct of its business. Although the ultimate disposition of any proceedings cannot be predicted with certainty, it is the opinion of management that the ultimate outcome of any claim or legal proceeding, individually or in the aggregate, will not have a material adverse impact on the financial position or results of operations of the Company.

AIRCRAFT OPERATING EXP. - Sch. P-5.1 Grp I > 20M Qtr: September 30, 2000
 Air Carrier: Operation: Domestic NCD
 ACCT # DESCRIPTION Total Eqp DC-6 B-727-OC
 Code 9999 Code 2162 Code 7112

DIRECT EXPENSES:

3	FLYING OPERATIONS (Less Rentals			
4	Pilots and Copilots (S&W & Benef	914,265	609,234	305,031
5	Aircraft Fuel and Oil	3,001,646	1,814,057	1,187,589
6	Other	433,000	217,792	215,208
	Total Flying Ops. (Less Rentals	4,348,911	2,641,083	1,707,828
7	Maintenance - Flight Equipment	3,049,319	2,050,861	998,458
8	Depr. & Rental - Flight Equipme	215,482	0	215,482
9	Total Direct Expenses	7,613,712	4,691,944	2,921,768

OPERATING EXPENSES BY OBJECTIVE GROUPING

Quarter Ended: September 30, 2000
Schedule P-6

Air Carrier:
Operation : Domestic NCD

LINE#	DESCRIPTION	AMOUNT
	SALARIES & REL. FRINGE BENEFIT	
	SALARIES:	
Line 3	General Mgmt. Per.	355,784
Line 4	Flight Personnel	747,817
Line 5	Maintenance Labor	884,873
Line 6	Aircr. & Traffic Hndl. Per.	423,020
Line 7	Other Personnel	471,242
Line 8	Total Salaries	2,882,736
	RELATED FRINGE BENEFITS	
Line 10	Personnel Expense	146,455
Line 11	Empl. Benefits & Pensions	231,290
Line 12	Payroll Taxes	232,693
Line 13	Total Fringe Benefits	610,438
Line 14	Total Salaries & Benefits	3,493,174
	MATERIALS PURCHASED	
Line 16	Aircraft Fuel & Oil	3,001,646
Line 17	Maintenance Materials	655,452
Line 18	Passenger Food	0
Line 19	Other Materials	73,596
Line 20	Total Materials	3,730,694
	SERVICES PURCHASED	
Line 22	Advertising & Other Promotion	78,045
Line 23	Communications	33,186
Line 24	Insurance	75,005
Line 25	Outside Flight Eqpt. Maint.	989,891
Line 26	Traffic Commissions - Passenger	0
Line 27	Traffic Commissions - Cargo	0
Line 28	Other Services	1,179,054
Line 29	Total Services	2,355,181
Line 30	LANDING FEES	67,614
Line 31	RENTALS	124,397
Line 32	DEPRECIATION	402,475
Line 33	AMORTIZATION	0
Line 34	OTHER	0
Line 35	TRANSPORT RELATED EXPENSES	810,334
Line 36	TOTAL OPERATING EXPENSES	10,983,869