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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2023
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 001-39648

Sky Harbour Group Corporation

(Exact name of registrant as specified in its Charter)

Delaware	**85-2732947**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

136 Tower Road, Suite 205 **Westchester County Airport** **White Plains, NY**	**10604**
(Address of principal executive offices)	(Zip Code)

(212) 554-5990
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Trading Symbols	Name of Exchange on Which Registered
Class A common stock, par value $0.0001 per share	SKYH	NYSE American LLC
Warrants, each whole warrant exercisable for one share of Class A common stock at an exercise price of $11.50 per share	SKYH WS	NYSE American LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. (See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 8, 2023, 15,108,950 shares of Class A common stock, par value $0.0001 per share, and 42,046,356 shares of Class B common stock, par value $0.0001 per share, were issued and outstanding, respectively.

SKY HARBOUR GROUP CORPORATION
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ITEM 1. FINANCIAL STATEMENTS

SKY HARBOUR GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2023 (unaudited)	December 31, 2022 (audited)
Assets		
Cash	$ 2,853	$ 2,174
Restricted cash	70,303	39,222
Investments	18,405	24,895
Restricted investments	74,594	114,648
Prepaid expenses and other assets	6,464	4,448
Cost of construction	17,568	48,242
Constructed assets, net	78,519	39,709
Right-of-use assets	56,542	56,716
Long-lived assets, net	1,296	1,150
Total assets	$ 326,544	$ 331,204
Liabilities and equity		
Accounts payable, accrued expenses and other liabilities	$ 13,065	$ 14,184
Operating lease liabilities	53,833	53,531
Bonds payable, net of debt issuance costs and premiums	162,263	162,210
Warrants liability	7,114	2,904
Total liabilities	236,275	232,829
Commitments and contingencies (Note 14)		
Stockholders' equity		
Preferred stock; $0.0001 par value; 10,000,000 shares authorized as of March 31, 2023; none issued and outstanding	-	-
Class A common stock, $0.0001 par value; 200,000,000 shares authorized; 15,108,725 and 14,962,831 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	1	1
Class B common stock, $0.0001 par value; 50,000,000 shares authorized; 42,046,356 and 42,192,250 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	4	4
Additional paid-in capital	30,137	29,560
Accumulated deficit	(9,380)	(3,184)
Accumulated other comprehensive income (loss)	75	(102)
Total Sky Harbour Group Corporation stockholders' equity	20,837	26,279
Non-controlling interests	69,432	72,096
Total equity	90,269	98,375
Total liabilities and equity	$ 326,544	$ 331,204

See accompanying Notes to Unaudited Consolidated Financial Statements

SKY HARBOUR GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

	Three Months Ended	
	March 31, 2023	**March 31, 2022**
Revenue:		
Rental revenue	$ 1,107	$ 397
Total revenue	1,107	397
Expenses:		
Operating	1,792	1,234
Depreciation	450	145
General and administrative	3,549	4,594
Total expenses	5,791	5,973
Operating loss	(4,684)	(5,576)
Other (income) expense:		
Unrealized loss on warrants	4,210	13,938
Other (income) expense	(133)	-
Total other (income) expense	4,077	13,938
Net loss	**(8,761)**	**(19,514)**
Net loss attributable to non-controlling interests	(2,565)	(3,751)
Net loss attributable to Sky Harbour Group Corporation shareholders	$ **(6,196)**	$ **(15,763)**
Loss per share		
Basic	$ (0.41)	$ (1.44)
Diluted	$ (0.41)	$ (1.44)
Weighted average shares		
Basic	14,983	10,954
Diluted	14,983	10,954

See accompanying Notes to Unaudited Consolidated Financial Statements

SKY HARBOUR GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2023	March 31, 2022
Net loss	$ (8,761)	$ (19,514)
Other comprehensive loss, before related income taxes:		
Unrealized gains on available-for-sale securities	223	-
Total comprehensive loss	$ (8,538)	$ (19,514)

See accompanying Notes to Unaudited Consolidated Financial Statements

SKY HARBOUR GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)
(Unaudited)

	Redeemable Sky Series B Preferred Units		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Members Equity	Non-Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2022	-	$ -	14,962,831	$ 1	42,192,250	$ 4	$ 29,560	$ (3,184)	$ (102)	26,279	$ -	$ 72,096	$98,375
Share-based compensation	-	-	-	-	-	-	393	-	-	393	-	85	478
Exchange of Class B Common Stock	-	-	145,894	-	(145,894)	-	184	-	-	184	-	(184)	-
Other comprehensive income	-	-	-	-	-	-	-	-	177	177	-	-	177
Net loss	-	-	-	-	-	-	-	(6,196)	-	(6,196)	-	(2,565)	(8,761)
Balance at March 31, 2023	-	$ -	15,108,725	$ 1	42,046,356	$ 4	$ 30,137	$ (9,380)	$ 75	$ 20,837	$ -	$ 69,432	$90,269

	Redeemable Series B Preferred Units		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Members Equity	Non-Controlling Interests	Total Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2021	-	$ 54,029	-	$ -	-	$ -	$ -	$ -	$ -	-	$ 16,931	$ -	$ 16,931
Sky incentive compensation prior to recapitalization	-	-	-	-	-	-	-	-	-	-	23	-	23
Net income (loss) prior to recapitalization	-	-	-	-	-	-	-	-	-	-	(1,247)	-	(1,247)
Yellowstone Transaction and recapitalization	-	(54,029)	14,937,581	1	42,192,250	4	28,681	-	-	28,686	(15,707)	81,024	94,003
Sky incentive compensation following recapitalization	-	-	-	-	-	-	-	-	-	-	-	63	63
Net loss following recapitalization	-	-	-	-	-	-	-	(15,763)	-	(15,763)	-	(2,504)	(18,267)
Balance at March 31, 2022	-	$ -	14,937,581	$ 1	42,192,250	$ 4	$ 28,681	$ (15,763)	$ -	$ 12,923	$ -	$ 78,583	$ 91,506

See accompanying Notes to Unaudited Consolidated Financial Statements

SKY HARBOUR GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three months ended March 31, 2023	Three months ended March 31, 2022
Cash flows from operating activities:		
Net loss	$ (8,761)	$ (19,514)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	450	145
Straight-line rent adjustments, net	(25)	12
Equity-based compensation	478	86
Non-cash operating lease expense	485	539
Unrealized loss on warrants	4,210	13,938
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(705)	(3,500)
Right-of-use asset initial direct costs	(9)	-
Accounts payable, accrued expenses and other liabilities	(676)	(1,870)
Net cash used in operating activities	(4,553)	(10,164)
Cash flows from investing activities:		
Purchases of long-lived assets	(175)	(6)
Payments for cost of construction	(8,948)	(12,428)
Issuance of notes receivable	(1,321)	-
Purchases of held-to-maturity investments	-	(166,560)
Proceeds from available for sale investments	6,713	-
Proceeds from held-to-maturity investments	40,044	-
Net cash provided by (used in) investing activities	36,313	(178,994)
Cash flows from financing activities:		
Proceeds from issuance of BOC PIPE	-	45,000
Proceeds from Yellowstone trust	-	15,691
Payments for equity issuance costs	-	(8,822)
Net cash provided by financing activities	-	51,869
Net increase (decrease) in cash and restricted cash	31,760	(137,289)
Cash and restricted cash, beginning of year	41,396	203,935
Cash and restricted cash, end of period	$ 73,156	$ 66,646

See accompanying Notes to Unaudited Consolidated Financial Statements

SKY HARBOUR GROUP CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023
(in thousands, except share data)

1. Organization and Business Operations

Sky Harbour Group Corporation ("SHG") is a holding company organized under the laws of the State of Delaware and, through its main operating subsidiary, Sky Harbour LLC and its subsidiaries (collectively, "Sky"), is an aviation infrastructure development company that develops, leases and manages general aviation hangars for business aircraft across the United States. Sky Harbour Group Corporation and its consolidated subsidiaries are collectively referred to as the "Company."

The Company is organized as an umbrella partnership-C corporation, or "Up-C", structure in which substantially all of the operating assets of the Company are held by Sky and SHG's only substantive assets are its equity interests in Sky (the "Sky Common Units"). As of March 31, 2023, SHG owned approximately 26.2% of the Sky Common Units and the prior holders of Sky Common Units (the "LLC Interests") owned approximately 73.8% of the Sky Common Units and control the Company through their ownership of the Company's Class B Common Stock, $0.0001 par value ("Class B Common Stock").

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements and the related notes (the "Financial Statements") have been prepared in conformity with the U.S. Securities and Exchange Commission (the "SEC") requirements for quarterly reports on Form 10-Q, and consequently exclude certain disclosures normally included in audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").These Financial Statements include the accounts of the Company and its consolidated subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Financial Statements should be read in conjunction with the audited consolidated financial statements and the notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, which includes additional disclosures and a summary of the Company's significant accounting policies. In the Company's opinion, these Financial Statements include all adjustments, consisting of normal recurring items, considered necessary by management to fairly state the Company's results of operation, financial position, and cash flows.

Certain historical amounts have been reclassified to conform to the current year's presentation, including salaries, wages, and benefits associated with operations personnel employed at the Company's hangar development sites. $89 previously classified within general and administrative expenses on the consolidated statement of operations for the three months ended March 31, 2022, has been reclassified to operating expenses. This reclassification had no effect on total expenses, net loss, net loss per common share and had no impact on the Company's consolidated balance sheets, statement of stockholders' equity and statement of cash flows for the prior year period.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include assumptions used within impairment analyses, estimated useful lives of depreciable assets and amortizable costs, estimates of inputs utilized in determining incentive compensation expense and financial instruments such as warrants, and estimates and assumptions related to right-of-use assets and operating lease liabilities. Actual results could differ materially from those estimates.

Risks and Uncertainties

The Company's operations have been limited to-date. For most of its history, the Company was engaged in securing access to land through ground leases, and developing and constructing aviation hangars. The major risks faced by the Company is its future ability to obtain additional tenants for the facilities that it constructs, and to contract with such tenants for rental income in an amount that is sufficient to meet the Company's financial obligations, including increasing construction costs due to inflation.

Liquidity and Capital Resources

As a result of ongoing construction projects and business development activities, including the development of aircraft hangars and the leasing of available hangar space, the Company has incurred recurring losses and negative cash flows from operating activities since its inception. The Company expects to continue to invest in such activities and generate operating losses in the near future.

The Company obtained long-term financing through bond and equity offerings to fund its construction, lease, and operational commitments, and believes its liquidity is sufficient to allow continued operations for more than one year after the date these financial statements are issued.

Significant Accounting Policies

Basis of Consolidation

SHG is deemed to have a controlling interest of Sky through its appointment as the Managing Member of Sky, in which SHG has control over the affairs and decision-making of Sky. The interests in Sky not owned by the Company are presented as non-controlling interests. Sky's ownership percentage in each of its consolidated subsidiaries is 100%. There are no unconsolidated variable interest entities ("VIEs") in which Sky is considered to be the primary beneficiary.

Cost of Construction

Cost of construction on the consolidated balance sheets is carried at cost. The cost of acquiring an asset includes the costs necessary to bring a capital project to the condition necessary for its intended use. Costs are capitalized once the construction of a specific capital project is probable. Construction labor and other direct costs of construction are capitalized. Professional fees for engineering, procurement, consulting, and other soft costs that are directly identifiable with the project and are considered an incremental direct cost are capitalized. The Company allocates a portion of its internal salaries to both capitalized cost of construction and to general and administrative expense based on the percentage of time certain employees worked in the related areas. Interest, net of the amortization of debt issuance costs and premiums, and net of interest income earned on bond proceeds, is also capitalized until the capital project is completed.

Once a capital project is complete, the Company begins to depreciate the constructed asset on a straight-line basis over the lesser of the life of the asset or the remaining term of the related ground lease, including expected renewal terms.

Leases

The Company accounts for leases under Accounting Standards Codification ("ASC") Topic 842, Leases. The Company determines whether a contract contains a lease at the inception of the contract. ASC Topic 842 requires lessees to recognize lease liabilities and right-of-use ("ROU") assets for all operating leases with terms of more than 12 months on the consolidated balance sheets. The Company has made an accounting policy election to not recognize leases with an initial term of 12 months or less on the Company's consolidated balance sheets and will result in recognizing those lease payments in the consolidated statements of operations on a straight-line basis over the lease term. When management determines that it is reasonably certain that the Company will exercise its options to renew the leases, the renewal terms are included in the lease term and the resulting ROU asset and lease liability balances.

The Company also has tenant leases and accounts for those leases in accordance with the lessor guidance under ASC Topic 842.

The Company has lease agreements with lease and non-lease components; the Company has elected the accounting policy to not separate lease and non-lease components for all underlying asset classes.

The Company has not elected to capitalize any interest cost that is implicit within its operating leases into cost of construction on the consolidated balance sheet, but instead, expenses its ground lease cost in the consolidated statements of operations.

Warrants liability

The Company accounts for the warrants assumed in the Yellowstone Transaction (see Note 9) in accordance with the guidance contained in ASC Topic 815, "Derivatives and Hedging" ("ASC 815"), under which warrants that do not meet the criteria for equity classification and must be recorded as derivative liabilities. Accordingly, the Company classifies the warrants as liabilities carried at their fair value and adjusts the warrants to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until the warrants are exercised or expire, and any change in fair value is recognized in the consolidated statement of operations.

Revenue recognition

The Company leases the hangar facilities that it constructs to third parties. The lease agreements are either on a month-to-month basis or have a defined term and may have options to extend the term. Some of the leases contain options to terminate the lease by either party with given notice. There are no options given to the lessee to purchase the underlying assets. Rental revenue is recognized in accordance with ASC Topic 842, Leases (see Note 7) and includes (i) fixed payments of cash rents, which represents revenue each tenant pays in accordance with the terms of its respective lease and is recognized on a straight-line basis over the term of the lease and (ii) variable payments of tenant reimbursements, which are recoveries of all or a portion of the common area maintenance and operating expenses of the property and are recognized in the same period as the expenses are incurred. As of March 31, 2023 and December 31, 2022, the deferred rent receivable included in prepaid expenses and other assets was $ 120 and $83, respectively.

The Company evaluates the collectability of tenant receivables for payments required under the lease agreements. If the Company determines that collectability is not probable, the Company recognizes any difference between revenue amounts recognized to date under ASC 842 and payments that have been collected from the lessee, including security deposit amounts held, as a current period adjustment to rental revenue. There were no material adjustments to rental revenue for uncollectible tenant rental payments in either of the three and nine months ended March 31, 2023 or 2022.

For the three months ended March 31, 2023 the Company derived approximately 45% of its revenue from three tenants, including 20% from a single tenant. For the three months ended March 31, 2022, the Company derived approximately 90% of its revenue from two tenants.

Income Taxes

SHG is classified as a corporation for Federal income tax purposes and is subject to U.S. Federal and state income taxes. SHG includes in income, for U.S. Federal income tax purposes, its allocable portion of income from the “pass-through” entities in which it holds an interest, including Sky. The “pass-through” entities, are not subject to U.S. Federal and certain state income taxes at the entity level, and instead, the tax liabilities with respect to taxable income are passed through to the members, including SHG. As a result, prior to the Yellowstone Transaction, Sky was not subject to U.S. Federal and certain state income taxes at the entity level.

The Company follows the asset and liability method of accounting for income taxes. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax basis of the assets and liabilities as well as the ultimate realization of any deferred tax asset resulting from such differences, as well as from net operating losses and other tax-basis carryforwards. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. When a valuation allowance is increased or decreased, a corresponding tax expense or benefit is recorded.

The Company recorded income tax expense of $0 and the effective tax rate was 0.0% for the three months ended March 31, 2023 and March 31, 2022. The effective income tax rate for the three months ended March 31, 2023 and March 31, 2022 differs from the federal statutory rate of 21% primarily due to a full valuation allowance against net deferred tax assets as it is more likely than not that the deferred tax assets will not be realized.

Recently Adopted Accounting Pronouncements

Credit Losses (Topic 326)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). Subsequent to the issuance of ASU 2016-13, the FASB clarified the guidance through several ASUs. The collective new guidance (ASC 326) generally requires that credit losses be reported using an expected losses model rather than the incurred losses model that is currently used and establishes additional disclosures related to credit risks. The Company adopted this guidance using the modified retrospective method in the first quarter of fiscal year 2023. The adoption did not have a material impact on the Company’s condensed consolidated financial statements.

3. Investments and Restricted Investments

Investments of the Company's cash in various U.S. Treasury securities have been classified as available-for-sale and are carried at estimated fair value utilizing Level 1 inputs as determined based upon quoted market prices.

Pursuant to provisions within the Master Indenture of the Series 2021 Bonds, as defined in Note 8, the Company invests the funds held in the restricted trust bank accounts in various U.S. Treasury securities. Therefore, such investments are reported as “Restricted investments” in the accompanying consolidated balance sheets. Unrealized losses on certain of the Company's investments and restricted investments are primarily attributable to changes in interest rates. The Company does not believe the unrealized losses represent impairments because the unrealized losses are due to general market factors. The Company has not recognized an allowance for expected credit losses related to its investments or restricted investments as the Company has not identified any unrealized losses attributable to credit factors during the three months ended March 31, 2023. The held-to-maturity restricted investments are carried on the consolidated balance sheet at amortized cost. As of March 31, 2023, the Company has the ability and intent to hold these restricted investments until maturity, and as a result, the Company would not expect the value of these investments to decline significantly due to a sudden change in market interest rates. The fair value of the Company’s restricted investments is estimated utilizing Level 1 inputs including prices for U.S. Treasury securities with comparable maturities on active markets.

The following tables are summaries of the amortized cost, unrealized gains, unrealized losses, and fair value by investment type as of March 31, 2023 and December 31, 2022:

	March 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investments, available for sale:				
U.S. Treasuries	$ 18,330	$ 78	$ (3)	$ 18,405
Total investments	$ 18,330	$ 78	$ (3)	$ 18,405
Restricted investments, held-to-maturity:				
U.S. Treasuries	74,594	118	(1,219)	73,493
Total restricted investments	$ 74,594	$ 118	$ (1,219)	$ 73,493

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investments, available for sale:				
U.S. Treasuries	$ 24,997	$ 65	$ (167)	$ 24,895
Total investments	$ 24,997	$ 65	$ (167)	$ 24,895
Restricted investments, held-to-maturity:				
U.S. Treasuries	114,648	299	(1,991)	112,956
Total restricted investments	$ 114,648	$ 299	$ (1,991)	$ 112,956

The following table sets forth the maturity profile of the Company's investments and restricted investments as of March 31, 2023:

	Investments	Restricted Investments
Due within one year	$ 8,409	$ 54,370
Due on year through five years	9,996	20,224
Total	$ 18,405	$ 74,594

4. Cost of Construction and Constructed Assets

The Company's portfolio as of March 31, 2023 includes the following completed and in-development projects:

- Sugar Land Regional Airport ("SGR"), Sugar Land, TX (Houston area);
- Miami-Opa Locka Executive Airport ("OPF"), Opa-Locka, FL (Miami area);
- Nashville International Airport ("BNA"), Nashville, TN;
- Centennial Airport ("APA"), Englewood, CO (Denver area);
- Phoenix Deer Valley Airport ("DVT"), Phoenix, AZ; and
- Addison Airport ("ADS"), Addison, TX (Dallas area).

Constructed assets, net, and cost of construction, consists of the following:

	March 31, 2023	December 31, 2022
Constructed assets, net of accumulated depreciation:		
Buildings, SGR (Phase I), BNA, and OPF (Phase I)	$ 80,123	$ 40,921
Accumulated depreciation	(1,604)	(1,212)
	$ 78,519	$ 39,709
Cost of construction:		
OPF (Phase II), APA, DVT, and ADS	$ 17,568	$ 48,242

Depreciation expense for the three months ended March 31, 2023 and 2022 totaled $392 and $135, respectively.

5. Long-lived Assets

Long-lived assets, net, consists of the following:

	March 31, 2023	December 31, 2022
Ground support equipment	$ 1,034	$ 485
Other equipment and fixtures	328	110
Purchase deposits and construction in progress	87	650
	1,449	1,245
Accumulated depreciation	(153)	(95)
	$ 1,296	$ 1,150

Depreciation expense for the three months ended March 31, 2023 and 2022 totaled $58 and $10, respectively. As of March 31, 2023 and December 31, 2022, equipment included approximately $87 and $650, respectively, of purchase deposits towards ground support equipment which are not being depreciated as the assets have not been placed into service.

6. Supplemental Balance Sheet and Cash Flow Information

Prepaid expenses and other assets

In July 2022, the Company entered into a vendor agreement to acquire construction materials related to the Company's development projects (the "Vendor Agreement"). In connection with the Vendor Agreement, the Company entered into a revolving line of credit loan and security agreement (the "Vendor Loan Agreement"), whereby the Company agreed to provide up to $2.5 million of availability under a revolving credit line to fund the working capital requirements of the vendor. The Vendor Loan Agreement matures in July 2029 and initially bears interest at a rate of 5% per annum for the first year, and increases by 1% per annum each year on the anniversary date of the Vendor Loan Agreement until its maturity.

In December 2022, the Vendor Loan Agreement was amended to increase the commitment under the revolving line of credit to $ 4.5 million. In connection with the amendment of the Vendor Loan Agreement, the Company was granted an option to purchase a 51% interest in the vendor for nominal consideration (the "Vendor Purchase Option"). The Vendor Purchase Option is exercisable solely at the discretion of the Company and is deemed to have no fair value as its exercise price is essentially equivalent to the fair value of the underlying equity. The Vendor Purchase Option was exercised on May 12, 2023, see "*Note 16 — Subsequent Events*". The Vendor Purchase Option does not confer any voting rights to the Company prior to its exercise.

As of March 31, 2023, and December 31, 2022, the Company had loaned a total of $ 3.5 million and $2.2 million, respectively, to the vendor, the balance of which is presented as a component of Prepaid expenses and other assets within the Company's consolidated balance sheet.

Accounts payable, accrued expenses and other liabilities

Accounts payable, accrued expenses and other liabilities, consists of the following:

	March 31, 2023	December 31, 2022
Costs of construction	$ 7,391	$ 6,098
Employee compensation and benefits	811	2,047
Interest	1,735	3,470
Professional Fees	1,826	1,621
Other	1,302	948
	$ 13,065	$ 14,184

Supplemental Cash Flow Information

The following table summarizes non-cash investing and financing activities:

	Three months ended	
	March 31, 2023	March 31, 2022
Accrued costs of construction, including capitalized interest	$ 5,542	$ 6,256
Accrued costs of long-lived assets	29	-
Accrued equity issuance costs	-	1,805
Debt issuance costs and premium amortized to cost of construction	53	77

The following table summarizes non-cash activities associated with the Company's operating leases:

	Three months ended	
	March 31, 2023	March 31, 2022
Right-of-use assets obtained in exchange for operating lease liabilities	$ 168	$ -

The following table summarizes interest paid:

	Three months ended	
	March 31, 2023	March 31, 2022
Interest paid	$ 3,470	$ 2,063

The following table provides a reconciliation of cash and restricted cash reported within the consolidated balance sheets to the total shown within the consolidated statements of cash flows:

	Three months ended	
	March 31, 2023	March 31, 2022
Cash, beginning of year	$ 2,174	$ 6,805
Restricted cash, beginning of year	39,222	197,130
Cash and restricted cash, beginning of year	$ 41,396	$ 203,935
Cash, end of period	$ 2,853	$ 48,610
Restricted cash, end of period	70,303	18,036
Cash and restricted cash, end of period	$ 73,156	$ 66,646

7. Leases

Lessee

All of the Company's leases are classified as operating leases under ASC Topic 842. Management has determined that it is reasonably certain that the Company will exercise its options to renew the leases, and therefore the renewal options are included in the lease term and the resulting ROU asset and operating lease liability balances. As the Company's lease agreements do not provide a readily determinable implicit rate, nor is the rate available to the Company from its lessors, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

The Company's lease population does not include any residual value guarantees. The Company has operating leases that contain variable payments, most commonly in the form of common area maintenance and operating expense charges, which are based on actual costs incurred. These variable payments were excluded from the calculation of the ROU asset and operating lease liability balances since they are not fixed or in-substance fixed payments. These variable payments were not material in amount for both of the three month periods ended March 31, 2023 and 2022. Some of the leases contain covenants that require the Company to construct the hangar facilities on the leased grounds within a certain period and spend a set minimum dollar amount. For one of the leases, the shortfall (if any) must be paid to the lessor. See Note 14.

The Company's ground leases have remaining terms ranging between 26 to 74 years, including options for the Company to extend the terms. These leases expire between 2049 and 2097, which include all lease extension options available to the Company. Certain of the Company's ground leases contain options to lease additional parcels of land at the Company's option within a specified period of time.

In January 2023, the Company executed a lease amendment with the Town of Addison, Texas, to add two additional parcels of land (the "ADS Expansion Parcels") to the existing lease at ADS (the "ADS Lease"). The land associated with the ADS Expansion Parcels is expected to become available for possession no later than June 2023 for one parcel and July 2024 for the other. The lease term for the ADS Expansion Parcels will be 40 years from the completion of construction for each respective parcel, and will effectively extend the term of the existing ADS Lease to be co-terminus with the ADS Expansion Parcels. The ADS Lease and the ADS Expansion Parcels contain no additional extension options as the lease term is the maximum allowable term permitted by the Town of Addison.

In addition to the Company's ground leases, the company has operating leases for office space and ground support vehicles.

Supplemental consolidated cash flow information related to the Company's leases was as follows:

	Three months ended	
	March 31, 2023	March 31, 2022
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases as lessee	$ 466	$ 448

Supplemental consolidated balance sheet information related to the Company's leases was as follows:

Weighted Average Remaining Lease Term	March 31, 2023	December 31, 2022
Operating leases as lessee (in years)	54.90	55.30
Weighted Average Discount Rate		
Operating leases as lessee	4.62%	4.62%

The Company's future minimum lease payments required under leases as of March 31, 2023 were as follows:

Year Ending December 31,	Operating Leases
2023 (remainder of year)	$ 1,592
2024	2,246
2025	2,304
2026	2,316
2027	2,379
Thereafter	196,645
Total lease payments	207,482
Less imputed interest	(153,649)
Total	$ 53,833

Lessor

The Company leases the hangar facilities that it constructs to third-party tenants. These leases have been classified as operating leases. The Company does not have any leases classified as sales-type or direct financing leases. Lease agreements with tenants are either on a month-to-month basis or have a defined term with an option to extend the term. The defined term leases vary in length from one to five years with options to renew for additional term(s) given to the lessee. One of the agreements contains an option by either party to terminate with appropriate notice, as defined. There are no options given to the lessee to purchase the underlying assets.

The leases may contain variable fees, most commonly in the form of tenant reimbursements, which are recoveries of the common area maintenance and operating expenses of the property and are recognized as income in the same period as the expenses are incurred. The leases did not have any initial direct costs. The leases do not contain any restrictions or covenants to incur additional financial obligations by the lessee.

Tenant leases to which the Company is the lessor require the following non-cancelable future minimum lease payments from tenants as of March 31, 2023:

Year Ending December 31,	**Operating Leases**
2023 (remainder of year)	$ 4,105
2024	4,030
2025	3,893
2026	2,538
2027	-
Thereafter	-
Total lease payments	14,566
Less rent concessions to be applied at Company's discretion	(214)
Total	$ 14,352

8. Bonds payable and interest

Bonds payable

On May 20, 2021, Sky formed a new wholly-owned subsidiary, Sky Harbour Capital LLC ("SHC"), as a parent corporation to its wholly-owned subsidiaries that operate each of the aircraft hangar development sites under its ground leases. SHC and these subsidiaries form an Obligated Group (the "Obligated Group" or the "Borrowers") under a series of bonds that were issued in September 2021 with a principal amount of $166.3 million (the "Series 2021 Bonds"). The members of the Obligated Group are jointly and severally liable under the Series 2021 Bonds. SHG and its other subsidiaries are not members of the Obligated Group and have no obligation to repay the bonds.

The Series 2021 Bonds are payable pursuant to a loan agreement dated September 1, 2021 between the Public Finance Authority (of Wisconsin) and the Borrowers. The payments by the Borrowers under the loan agreement are secured by a Senior Master Indenture Promissory Note, Series 2021-1 issued by the Obligated Group under an indenture (the "Master Indenture"). The obligations of the Borrowers are collateralized by certain leasehold and subleasehold deeds of trust or mortgages on the Borrowers' interests in the development sites and facilities being constructed at each airport where the Borrowers hold ground leases. In addition, the Borrowers have assigned, pledged and granted a first priority security interest in all funds held under the Master Indenture and all right, title and interest in the gross revenues of the Borrowers. Furthermore, Sky, Sky Harbour Holdings LLC and SHC have each pledged as collateral its respective ownership interest in any of the Borrowers.

The Series 2021 Bonds have principal amounts, interest rates, and maturity dates as follow: $ 21.1 million bearing interest at 4.00%, due July 1, 2036; $30.4 million bearing interest at 4.00%, due July 1, 2041; and $114.8 million bearing interest at 4.25%, due July 1, 2054. The Series 2021 Bond that has a maturity date of July 1, 2036 was issued at a premium, and the Company received bond proceeds that were $ 0.2 million above its face value. The bond premium is being amortized as a reduction of interest expense over the life of the bond. Interest is payable on each January 1 and July 1, commencing January 1, 2022. Principal repayments due under the Series 2021 Bonds are paid annually, commencing July 1, 2032.

On March 22, 2023, SHC elected to modify the scope of the Series 2021 Bonds pursuant to the terms of the Master Indenture, in order to reallocate a portion of the proceeds of the Series 2021 Bonds to its project site located at ADS (the "ADS Project") . In connection with the election to modify the scope of the Series 2021 PABs to include the ADS Project, (i) Addison Hangars LLC ("Sky Harbour Addison") and OPF Hangars Landlord LLC ("OPF Hangars") joined as members of the Obligated Group, (ii) Sky Harbour Holdings LLC contributed its membership interest in OPF Hangars to SHC, (iii) SHC pledged its equity interest in each of Sky Harbour Addison and OPF Hangars to the Master Trustee as security for the obligations under the Series 2021 Bonds, (iv) Sky Harbour Addison granted to the Master Trustee a mortgage on its leasehold interest in the real property comprising the ADS Project, (v) OPF Hangars granted the Master Trustee a mortgage on its leasehold interest in the real estate comprising the project located in Opa Locka, Florida, and (vi) Sky Harbour Services LLC, a wholly-owned subsidiary of the Company, has agreed to waive all management fees and development fees during the construction period of the projects associated with the Series 2021 Bonds.

As of March 31, 2023 and December 31, 2022, the fair value of the Company's Series 2021-1 Bonds was approximately $125.4 million and $119.5 million, respectively. As of March 31, 2023, the fair value of the Company's bonds is estimated utilizing Level 3 inputs, including unobservable inputs reflecting assumptions about the inputs used in pricing the Series 2021-1 Bonds, including using current borrowing rates and trading for debt instruments with similar terms, as there were no trades of the Series 2021-1 Bonds during the three months ended March 31, 2023. As of December 31, 2022, the fair value of the Company's bonds is estimated utilizing Level 2 inputs including prices for the bonds on inactive markets.

The following table summarizes the Company's Bonds payable as of March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Bonds payable:		
Series 2021 Bonds Principal	$ 166,340	$ 166,340
Premium on bonds	249	249
Bond proceeds	166,589	166,589
Debt issuance costs	(4,753)	(4,753)
Accumulated amortization of debt issuance costs and bond premium	427	374
Total Bonds payable, net	**$ 162,263**	**$ 162,210**

Interest

The following table sets forth the details of interest expense:

	Three months ended	
	March 31, 2023	March 31, 2022
Interest	$ 1,735	$ 1,735
Amortization of bond premium and debt issuance costs	53	77
Total interest incurred	1,788	1,812
Less: capitalized interest	(1,788)	(1,812)
Interest expense	$ -	$ -

9. Warrants

SHG's legal predecessor, Yellowstone Acquisition Company ("Yellowstone"), issued to third-party investors 6,799,439 warrants which entitled the holder to purchase one share of Class A Common Stock at an exercise price of $ 11.50 per share (the "Public Warrants") as part of Yellowstone's initial public offering. Yellowstone. In addition, Yellowstone sold 7,719,779 private placement warrants (the "Private Placement Warrants", and together with the Public Warrants, the "Warrants") to BOC Yellowstone LLC (the "Sponsor"). Each Private Warrant allows the Sponsor to purchase one share of Class A Common Stock at an exercise price of $11.50 per share. The Warrants remain outstanding under the same terms and conditions to purchase shares of the Company's Class A Common Stock. As of March 31, 2023, 6,799,189 and 7,719,779 Public and Private Warrants remain outstanding, respectively.

The terms of the Private Warrants are identical to those of the Public Warrants, except for that so long as the Private Warrants are held by the Sponsor or its permitted transferees, they may be exercised on a cashless basis. The Warrants contain an exercise price of $ 11.50 per share and expire on January 25, 2027. The Company determined the fair value of its Public Warrants based on the publicly listed trading price as of the valuation date. Accordingly, the Public Warrants are classified as Level 1 financial instruments. As the terms of the Private Warrants are identical to those of the Public Warrants, the Company determined the fair value of its Private Warrants based on the publicly listed trading price of the Public Warrants as of the valuation date and have classified the Private Warrants as Level 2 financial instruments.

The closing price of the Public Warrants was $0.49 and $0.20 per warrant on March 31, 2023 and December 31, 2022, respectively. The aggregate fair value of the Warrants was approximately $7.1 million and $2.9 million as of March 31, 2023 and December 31, 2022, respectively. The Company recorded unrealized losses of approximately $4.2 million and $13.9 million during the three months ended March 31, 2023 and the three months ended March 31, 2022, respectively.

10. Equity and Redeemable Equity

Common Equity

As of March 31, 2023, there were 15,108,725 and 42,046,356 shares of Class A Common Stock and Class B Common Stock outstanding, respectively. Holders of Class A Common Stock and Class B Common Stock vote together as a single class on all matters submitted to the stockholders for their vote or approval, except as required by applicable law. Holders of Class A Common Stock and Class B Common Stock are entitled to one vote per share on all matters submitted to the stockholders for their vote or approval.

The holders of Class A Common Stock are entitled to receive dividends, as and if declared by the Company's Board of Directors out of legally available funds. With respect to stock dividends, holders of Class A Common Stock must receive Class A Common Stock. The holders of Class B Common Stock do not have any right to receive dividends other than stock dividends consisting of shares of Class B Common Stock, as applicable, in each case paid proportionally with respect to each outstanding share of Class B Common Stock.

Common Stock Purchase Agreement

On August 18, 2022, the Company entered into a Common Stock Purchase Agreement (the "Stock Purchase Agreement") with B. Riley Principal Capital II, LLC ("B. Riley"). Pursuant to the Stock Purchase Agreement, subject to the conditions and limitations set forth therein, the Company has the right, but not the obligation, from time to time at the Company's sole discretion over a 36-month term of the Stock Purchase Agreement, to direct B. Riley to purchase up to 10 million shares of the Company's Class A Common Stock in the aggregate.

Under the Stock Purchase Agreement, on any trading day selected by the Company, the Company has the right, in its sole discretion, to present B. Riley with a purchase notice (each, a "VWAP Purchase Notice"), directly B. Riley (as principal) to purchase a specified amount of shares not to exceed the lesser of (i) one million shares of Common Stock and (ii) 20% of the total aggregate number (or volume) of shares of Class A Common Stock traded on the NYSE American at a price(the "VWAP Purchase Price") equal to the product of 0.97 and the VWAP of the Company's Class A Common Stock on the applicable date for each VWAP Purchase Notice, subject to certain limitations contained in the Stock Purchase Agreement. Sales of Class A Common Stock pursuant to the Stock Purchase Agreement, and the timing of any such sales, are solely at the discretion of the Company, and the Company is under no obligation to sell any securities to B. Riley under the Stock Purchase Agreement.

In consideration for entering into the Stock Purchase Agreement and concurrently with the execution of the Stock Purchase Agreement, the Company issued to B. Riley 25,000 shares of Class A Common Stock as initial commitment shares and will issue up to an aggregate of 75,000 shares of its Class A Common Stock as additional commitment shares if certain conditions and milestones are met. As of March 31, 2023, the Company has not directed B. Riley to purchase any Class A Common Stock pursuant to the Stock Purchase Agreement.

Non-controlling interests

The LLC Interests' ownership in Sky is presented as non-controlling interests within the Equity section of the consolidated balance sheet as of March 31, 2023 and represents the Sky Common Units held by holders other than SHG. The holders of LLC Interests may exchange Sky Common Units along with an equal number of Class B Common Shares, for Class A Common Shares on the Company. The LLC Interests do not have the option to redeem their Sky Common Units for cash or a variable number of Class A Common Shares, nor does SHG have the option to settle a redemption in such a manner. As of March 31, 2023, the LLC interests owned approximately 73.8% of the Sky Common Units outstanding.

11. Equity Compensation

Restricted Stock Units ("RSUs")

In February 2023, the Company granted time-based RSUs to certain employees under the Company's 2022 Incentive Award Plan. 545,522 of time-based awards were granted at a grant date fair value of $5.75, which will vest ratably over a four-year period beginning on the first anniversary of the grant date and ending on February 13, 2027.

During the three months ended March 31, 2023 and March 31, 2022, the Company recognized stock compensation expense of $ 393 and $0, respectively associated with all RSU awards. As of March 31, 2023, there are approximately 1,183,022 non-vested RSUs outstanding with a weighted average grant date fair value of $6.76. The unrecognized compensation costs associated with all unvested RSUs at March 31, 2023 was approximately $6.8 million that is expected to be recognized over a weighted-average future period of 3.5 years.

Sky Incentive Units

The Company recognized equity-based compensation expense relating to awarded equity units of Sky (the "Sky Incentive Units") of $ 85 and $86 for the three months ended March 31, 2023, and March 31, 2022, respectively, which is recorded within General and Administrative Expenses within the statement of operations, and as a component of the non-controlling interest in the consolidated statement of changes in stockholders' equity. As of March 31, 2023, there was $0.6 million of total unrecognized compensation expense that is expected to be recognized over a weighted-average future period of 2.1 years.

12. Earnings (loss) per Share

Basic earnings (loss) per share of Class A Common Stock is computed by dividing net income (loss) attributable to SHG by the weighted-average number of shares of Class A Common Stock outstanding during the period. Diluted net income (loss) per share of Class A Common Stock is computed by dividing net income (loss) attributable to SHG, adjusted for the assumed exchange of all potentially dilutive securities, by the weighted-average number of shares of Class A Common Stock outstanding adjusted to give effect to potentially dilutive shares using the treasury stock method. Shares of the Company's Class B Common Stock do not participate in the earnings or losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B Common Stock under the two-class method has not been presented.

	Three Months Ended	
	March 31, 2023	**March 31, 2022**
Numerator:		
Net loss	$ (8,761)	$ (19,514)
Less: Net loss attributable to non-controlling interests	(2,565)	(3,751)
Basic and diluted net loss attributable to Sky Harbour Group Corporation shareholders	$ (6,196)	$ (15,763)
Denominator:		
Basic and diluted weighted average shares outstanding	14,983	10,954
Loss per share of Class A Common Stock – Basic and diluted	$ (0.41)	$ (1.44)

Potentially dilutive shares excluded from the weighted-average shares used to calculate the diluted net loss per common share due the the Company's net loss position were as follows:

	Three Months Ended	
	March 31, 2023	**March 31, 2022**
Shares subject to unvested restricted stock units	1,183,022	-
Shares issuable upon the exercise of Warrants	14,518,968	14,519,218
Shares issuable upon the exchange of Class B Common Stock	42,046,356	42,192,250
Shares issuable upon the exercise and exchange of Sky Incentive Units	2,807,750	2,807,750

13. Related Party Transactions

On September 20, 2021, the Company entered into a non-exclusive agreement with Echo Echo, LLC, a related party to the Founder and CEO, for the use of a Beechcraft Baron G58 aircraft. The effective date of the agreement was September 8, 2021 and the agreement automatically renews annually. The agreement can be terminated without penalty if either party provides 35 days written notice, or if the aircraft is sold or otherwise disposed of. The Company is charged per flight hour of use along with all direct operating costs. Additionally, the Company will also incur the pro rata share of maintenance, overhead and insurance costs of the aircraft. For the three months ended March 31, 2023 and March 31, 2022, the Company recognized $62 and $29 of expense, respectively, within General and administrative expense under the terms of this agreement. The related liability is included in Accounts payable, accrued expenses and other liabilities on the consolidated balance sheet as of March 31, 2023.

For the three months ended March 31, 2023 and March 31, 2022, the Company paid $88 and $20 respectively, for consulting services, to a company that employed the chief financial officer until prior to July 1, 2021.

14. Commitments and Contingencies

In addition to the lease payment commitments discussed in Note 7, the ground leases to which the Company is a party contain covenants that require the Company to conduct construction of hangar facilities on the leased grounds within a certain period and in some cases, to spend a minimum dollar amount.

With respect to the Company's SGR Phase II project, the Company is subject to requirements that define (i) a minimum improvement amount of $ 2.0 million and (ii) that related construction commence by October 2023. If these conditions are not met or otherwise waived or amended, the ground lease for the parcels designated for the SGR Phase II project will automatically terminate.

The APA Lease requires the Company to improve the property in accordance with a development plan included in the lease and to complete such improvements within 24-months of the issuance of permitting documents. Construction began on the APA Phase I project in October 2022.

The DVT Lease requires approximately $15.3 million and $14.6 million of improvements to be made for Phase I and for Phase II, if such option is exercised, respectively, within 12-months after receiving permitting documents for each Phase, but in no event later than May 2026. Construction began on the DVT Phase I project in December 2022.

The Company has committed to spend $10.0 million in capital improvements on the ADS construction project. If this amount is not expended, the Company is subject to a reduction of the term of the lease.

The Company has contracts for construction of the APA Phase I and DVT Phase I projects. The Company may terminate any of the contracts or suspend construction without cause. There are no termination penalties under the APA Phase I or DVT Phase I construction contracts.

15. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the components of Accumulated other comprehensive income (loss):

	Unrealized loss on Available-for-sale Securities	Total
Balance as of December 31, 2022	$ (102)	$ (102)
Other comprehensive income before reclassifications	223	223
Amounts reclassified to other (income) expense	(46)	(46)
Balance as of March 31, 2023	$ 75	$ 75

16. Subsequent Events

Rapidbuilt Acquisition

On May 12, 2023 (the "Option Exercise Date"), Sky exercised the Vendor Purchase Option and acquired a 51% equity interest in Overflow Ltd., a Texas limited partnership ("Overflow"), and its wholly-owned subsidiary, Rapidbuilt, Inc., a Texas corporation ("Rapidbuilt"), for nominal consideration (the "Rapidbuilt Acquisition"). As a result of the Rapidbuilt Acquisition, Weatherford Steel Buildings Holdings LLC, a Delaware limited liability company and wholly-owned subsidiary of Sky ("WSBH"), owns a 50% limited partnership interest in Overflow, and Weatherford Steel Buildings GP LLC, a Delaware limited liability company and wholly-owned subsidiary of Sky ("WSB GP"), owns a 1% general partnership interest in Overflow.

Rapidbuilt is a manufacturer of pre-engineered steel buildings that previously entered into the Vendor Agreement with Sky. Rapidbuilt and Sky's strategic partnership has resulted in a standard set of proprietary prototype hangar designs, which are intended to deliver high-quality business aviation facilities, lower construction costs, minimize development risk, expedite permit issuance, and facilitate the implementation of refinements across Sky's portfolio.

Guaranty Agreement and Overflow Loan Amendment

In connection with the Rapidbuilt Acquisition, Sky and Vista Bank (the "Lender") entered into a consent, waiver, and second amendment (the "Loan Amendment") and a guaranty agreement (the "Guaranty Agreement") associated with the senior loan agreement between Overflow and Rapidbuilt (collectively, the "Borrowers"), and the Lender (the "Overflow Loan"). Pursuant to the Loan Amendment, (i) the Lender consented to the change in control with respect to the Borrowers; (ii) the Lender waived any pre-existing events of default on the part of the Borrowers; (iii) the Lender agreed to release certain borrowed funds held in reserve, subject to specified terms and conditions; and (iv) the Borrowers agreed to certain reserve enhancement obligations, including the ability to repay principal early at the sole discretion of the Borrowers. Pursuant to the Guaranty Agreement, all of the Borrowers' obligations under the Overflow Loan will be guaranteed by Sky.

The Overflow Loan was originated in December 2020 between the Borrowers and the Lender and has approximately $ 10.0 million outstanding as of the Option Exercise Date. The Overflow Loan accrues interest at a per annum rate equal to 3.00% above the three-month secured overnight financing rate published for first day of each calendar quarter by the Federal Reserve Bank of New York. Interest is payable on a monthly basis, and the Borrowers agreed to make certain reserve enhancement payments on January 1, April 1, July 1, and October 1 of each calendar year. The maturity date of the Overflow Loan is December 1, 2025. The Overflow Loan is secured by the (i) accounts, (ii) intellectual property, (iii) equipment, (iv) inventory, (v) vehicles, and (vi) property of the Borrowers, and contains customary affirmative and negative covenants.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes included elsewhere in this Quarterly Report on Form 10-Q (this "Form 10-Q"), as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities Exchange Commission (the "SEC") on March 24, 2023 (the "Form 10-K"), which is accessible on the SEC's website at www.sec.gov.

Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements can be identified by the use of forward-looking terminology, including the words "believes," "estimates," "anticipates," "expects," "intends," "plans," "may," "might," "will," "potential," "projects," "predicts," "continue," or "should," or, in each case, their negative or other variations or comparable terminology. There can be no assurance that actual results will not materially differ from expectations. These statements are based on management's current expectations, but actual results may differ materially due to various factors, including, but not limited to:

- expectations regarding the Company's strategies and future financial performance, including the Company's future business plans or objectives, prospective performance and commercial opportunities and competitors, services, pricing, marketing plans, operating expenses, market trends, revenues, liquidity, cash flows and uses of cash, capital expenditures, and the Company's ability to invest in growth initiatives;

- the effects of general economic conditions, including inflation, rising interest rates, and availability of construction materials and labor for our development projects;

- our limited operating history makes it difficult to predict future revenues and operating results;

- our ability to implement our construction costs mitigation strategies;

- changes in applicable laws or regulations;

- the possibility that the Company may be adversely affected by other economic, business, and/or competitive factors; and

- our financial performance.

The forward-looking statements contained in this Form 10-Q are based on our current expectations and beliefs concerning future developments and their potential effects on us. Future developments affecting us may not be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) and other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the heading "Risk Factors" in the Form 10-K. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. These risks and others described in the Form 10-K may not be exhaustive.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and developments in the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this prospectus. In addition, even if our results or operations, financial condition and liquidity, and developments in the industry in which we operate are consistent with the forward-looking statements contained in this prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Overview and Background

We are an aviation infrastructure development company building the first nationwide network of HBS hangar campuses for business aircraft. We develop, lease, and manage general aviation hangars across the United States, targeting airfields in markets with significant aircraft populations and high hangar demand. Our HBS hangar campuses feature exclusive private hangars and a full suite of dedicated services specifically optimized for home-based, versus transient, aircraft.

The physical footprint of the U.S. business aviation fleet grew by almost 28 million square feet in the ten years preceding the beginning of the COVID-19 pandemic, with hangar supply lagging dramatically, especially in key growth markets. As the fleet of private jets in the United States continues to grow, with recent new aircraft deliveries exceeding retirements, demand for hangar space is at a premium in part because new jets require more square footage of hangar space and the pace of new hangar construction has lagged behind the demand. The cumulative square footage of the business aircraft fleet in the United States increased 50% between 2010 and 2021. Moreover, over that same period, there was an 81% increase in the square footage of larger private jets – those with greater than a 24-foot tail height. A recent study conducted by a business aircraft manufacturer forecasted that business aircraft will only continue to grow in the next ten years, with up to 8,500 new business jet deliveries worth almost $275 billion expected to be delivered between 2023 and 2032, further supported by data from the major business aviation manufacturers that suggest the current order backlog for new business aviation aircraft is almost $47 billion.

These larger footprint aircraft do not fit in much of the existing hangar infrastructure and impose stacking challenges and constraints in the traditional shared or community hangars operated by FBOs. The addition of winglets (the vertical extensions on aircraft wingtips) on most modern business jets inhibits wing-over-wing storage. Aircraft hangars are in high demand and short supply, with some airports compiling waiting lists that can exceed several years.

We believe our scalable, real estate-centric business model is uniquely optimized to capture this market opportunity and address the increased imbalance between the supply and demand for private jet storage. We intend to capitalize on the existing hangar supply constraints at major U.S. airports by targeting high-end tenants in markets where there is a shortage of private and FBO hangar space, or where such hangars are or are becoming obsolete.

We realize economies of scale in construction through a proprietary prototype hangar design replicated at HBS hangar campuses across the United States. This allows for centralized procurement, straightforward permitting processes, efficient development processes, and the best hangar in business aviation. Unlike a service company, our revenues are mostly derived from long-term rental agreements, offering stability and forward visibility of revenues and cash flows. This allows the Company to fund its development through the public bond market, providing capital efficiency and mitigating refinance risk.

With six airport campuses either in development or ongoing operations, the company is targeting fourteen additional airfields in the current growth phase, and an additional 30 in the next.

The table below presents certain information with respect to our portfolio as of March 31, 2023.

- Sugar Land Regional Airport (“SGR”), Sugar Land, TX (Houston area);
- Miami-Opa Locka Executive Airport (“OPF”), Opa-Locka, FL (Miami area);
- Nashville International Airport ("BNA"), Nashville, TN;
- Centennial Airport (“APA”), Englewood, CO (Denver area);
- Phoenix Deer Valley Airport (“DVT”), Phoenix, AZ; and
- Addison Airport ("ADS"), Addison, TX (Dallas area).

PROPERTIES IN OPERATION

Facility	Completion Date	Hangars	Rentable Square Footage	% of Total Rentable Square Footage	Occupancy at March 31, 2023
SGR Phase I	December 2020	7	66,080	17.6%	94
BNA Phase I & II	November 2022	10	149,069	39.7%	55
OPF Phase I	February 2023	12	160,092	42.7%	50
Total/Weighted Average		**29**	**375,241**	**100.0%**	**60%**

PROPERTIES IN DEVELOPMENT

Facility	Status	Scheduled Construction Start	Scheduled Completion Date	Estimated Total Construction Cost[1] ($mm)	Hangars	Square Footage
SGR Phase II	Predevelopment	October 2023	December 2024	10.3 - 12.0	4	58,400
OPF Phase II	In Development	September 2023	November 2024	28.1 - 32.7	7	102,077
APA Phase I	In Construction	November 2022	February 2024	37.2 - 43.2	9	133,530
APA Phase II	Predevelopment	August 2023	November 2024	28.6 - 33.2	9	103,400
DVT Phase I	In Construction	December 2022	March 2024	32.5 - 37.8	8	115,864
DVT Phase II	Predevelopment	November 2023	February 2025	28.2 - 32.8	8	105,000
ADS Phase I	In Development	August 2023	November 2024	29.2 - 33.8	6	119,847
ADS Phase II	Predevelopment	March 2024	June 2025	6.8 - 9.8	1	34,917
ADS Phase III	**Predevelopment**	January 2025	March 2026	16.5 - 19.5	4	69,024
Total				**$217.4 - 254.8**	**56**	**842,059**

Recent Developments

On January 19, 2023, we amended our existing ground lease agreement with the Town of Addison, TX to include additional parcels of land that will effectively double the land available for development at our ADS HBS hangar campus project.

On February 1, 2023, we substantially completed the construction of our OPF Phase I development project. In connection with the substantial completion of the OPF Phase I hangar campus, tenant leases for certain of our constructed hangars commenced starting in February 2023.

On March 22, 2023, we satisfied the requirements within the Series 2021 Bonds indenture to fund construction costs associated with our ADS Phase I development project with proceeds received from our Series 2021 PABs. See “*Note 8 — Bonds payable and interest*” in the Notes to Consolidated Financial Statements for additional information regarding the modification of the scope of our Series 2021 Bonds. The approval and exercise of such rights will allow approximately $26 million of proceeds to be used to fund the ADS Phase I development project, and is projected to improve our debt service coverage associated with the Series 2021 Bonds.

On May 12, 2023, we completed the Rapidbuilt Acquisition. We expect this vertical integration will enable us to deliver metal buildings to each development site in shorter timeframes, which we believe will reduce the overall construction duration of each development project

Factors That May Influence Future Results of Operations

Revenues

Our revenues are derived from rents we earn pursuant to the lease agreements we enter into with our tenants. Our ability to expand through new ground leases and tenant leases at airports is integral to our long-term business strategy and requires that we identify and consummate suitable new ground leases or investment opportunities in real estate properties for our portfolio that meet our investment criteria and are compatible with our growth strategy. Our ability to enter into new ground leases and tenant leases on favorable terms, or at all, may be adversely affected by a number of factors. We believe that the business environment of the industry segments in which our tenants operate is generally positive for tenants. However, our existing and potential tenants are subject to economic, regulatory and market conditions that may affect their level of operations and demand for hangar space, which could impact our results of operations. Accordingly, we actively monitor certain key factors, including changes in those factors (fuel prices, new aircraft deliveries, hangar rental rates) that we believe may provide early indications of conditions that may affect the level of demand for new leases and our lease portfolio. See "—*Risks Related to our Business and Operations* " within the Form 10-K for more information about the risks related to our tenants and our lease payments.

Ground Lease Expense

One of our largest expenses is the lease payments under our ground leases. For the three months ended March 31, 2023 and 2022, our operating lease expense for ground leases was $0.9 million and $1.0 million, respectively. As we enter into new ground leases at new airport sites, our payments to airport landlords will continue to increase into the future. If airport landlords increase the per acre cost of the ground lease of our target campuses, the operating margins at potential target developments may be impacted negatively.

Interest Expense

Economic conditions and actions by policymaking bodies are contributing to rising interest rates, which, along with increases in our borrowing levels, could increase our future borrowing costs. We expect to issue additional debt to finance future site developments and higher interest rates would impact our overall economic performance. In addition, we are subject to credit spreads demanded by fixed income investors. As a non-rated issuer, increases in general of credit spreads in the market, or for us, may result in a higher cost of borrowing in the future. We intend to access the bond market on an opportunistic basis. In addition, we may hedge against rising benchmark interest rates by entering into hedging strategies with high quality counterparties.

General and Administrative Expenses

The general and administrative expenses reflected in our statement of operations are reflective of the professional, legal and consulting fees, payroll costs, and other general and administrative expenses, including those necessary to support our business as a public company such as expenses associated with corporate governance, SEC reporting, and other compliance matters. While we expect that our general and administrative expenses will rise in some measure as our portfolio of campuses grows, we expect that such expenses as a percentage of our portfolio will decrease over time due to efficiencies, economies of scale, insourcing of job functions, and cost control measures.

Construction Material Costs and Labor

When constructing our HBS hangar campuses, we use various materials and components. We generally contract for our materials and labor under guaranteed maximum price contracts upon receipt of building permits. This allows us to mitigate the risks associated with increases in building materials and labor costs between the time construction begins on an HBS hangar campus and the time it is completed. Typically, the materials and most of the components used to construct our HBS hangar campuses are readily available in the United States. In addition, the majority of our materials are supplied to us by our contractors and is included in the price of our contract with such contractors. We continue to monitor the supply markets to achieve the best prices available. Typically, the price changes that most significantly influence our operations are price increases in steel, concrete, and labor. We believe that recent inflationary pressures and market conditions will lead to continued increases in construction costs as well as market rental rates for hangars within our HBS hangar campus development projects. However, there can be no assurance that we will be able to increase the lease rates for the hangars within our HBS hangar campuses to absorb these increased costs and/or delays, if at all.

We intend to continue to aggressively take action to mitigate these inflationary pressures, reduce construction costs, and shorten development schedules, both in the near term at our APA Phase I, DVT Phase I, and ADS Phase I development projects, and in the long term at future projects. We structure our guaranteed maximum price construction contracts with shared savings clauses to incentivize the general contractors to reduce construction costs. At our SGR Phase I and BNA Phase II development projects, our total construction costs were lower than both our original pricing estimate and the project's contracted guaranteed maximum price.

In July 2022, we entered an exclusive strategic vendor partnership with a metal building and hangar door manufacturer that we expect to result in a reduction in the cost of the metal building and hangar door components at all future HBS hangar campuses. As our strategic partnership grows, we expect this vertical integration will enable us to deliver metal buildings to each development site in shorter timeframes, which we believe will reduce the overall construction duration of each development project. No assurance can be given that our cost mitigation strategies will be successful, the costs of our projects will not exceed budgets or the guaranteed maximum price for such projects, or that the completion will not be delayed beyond the projected completion dates.

Current Capital Requirements and Future Expenditures for Expansion

We previously funded SHC with over $200 million to fund the two phases at each of our five ground leased airport locations. These construction funds and reserves are held at the bondholder trustee.

We maintain the ability to include up to $50 million in new projects outside the original five locations to be funded with a portion of the existing proceeds held by the trustee as long as certain approvals and supplemental consultant reports are provided showing that such new project would result in better coverage of debt service than previously contemplated projects. We exercised this ability utilizing approximately $26 million of the $50 million available and received the requisite approvals and reports in March 2023 with respect to our ADS Phase I development project.

We previously raised equity capital to, along with potential future debt and further equity issuances, begin to fund additional airport campuses and reach up to 20 airport campuses over the next several years. On average, each future campus is anticipated to be composed of an average of 10-20 hangars and is expected to cost approximately $55 million per campus, with 60% or more to be funded with additional public activity bonds. All these future hangar campus projects are discretionary and require us to identify the appropriate airports with the target hangar demand economics, secure required ground leases and permits, and complete future construction at such sites.

The cumulative 20 airport site business plan is estimated to cost approximately $1.2 billion, with approximately 65% to 75% anticipated from long-term private activity bonds and the balance with equity or equity linked financing. Our ability to raise additional equity and/or debt financing will be subject to a number of risks, including our ability to obtain financing upon reasonable terms, if at all, costs of construction, delays in constructing new facilities, operating results, and other risk factors. In the event that we are unable to obtain additional financing, we may be required to raise additional equity capital, creating additional dilution to existing stockholders. There can be no assurance that we would be successful in raising such additional equity capital on favorable terms, if at all. Even if we can obtain such additional equity financing if needed, there can be no assurance that we would be successful in raising such additional financing on favorable terms, if at all.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following as our critical accounting policies:

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include assumptions used within impairment analyses, estimated useful lives of depreciable assets and amortizable costs, estimates of inputs utilized in determining incentive compensation expense and equity instruments such as warrants, estimates and assumptions related to right-of-use assets and operating lease liabilities. Actual results could differ materially from those estimates.

Cost of Construction

Cost of construction on the consolidated balance sheets is carried at cost. The cost of acquiring an asset includes the costs necessary to bring a capital project to the condition necessary for its intended use. Costs are capitalized once the construction of a specific capital project is probable. Construction labor and other direct costs of construction are capitalized. Professional fees for engineering, procurement, consulting, and other soft costs that are directly identifiable with the project and are considered an incremental direct cost are capitalized. We allocate a portion of our internal salaries to both capitalized cost of construction and to general and administrative expense based on the percentage of time certain employees worked in the related areas. Interest costs on the loans and bonds used to fund the capital projects are also capitalized until the capital project is completed. Once a capital project is complete, the cost of the capital project is reclassified to Constructed Assets on the accompanying balance sheet and we begin to depreciate the constructed asset on a straight-line basis over the lesser of the life of the asset or the remaining term of the related ground lease, including expected renewal terms.

Leases

We account for leases under Accounting Standards Codification (“ASC”) Topic 842, Leases. We determine whether a contract contains a lease at the inception of the contract. ASC Topic 842 requires lessees to recognize operating lease liabilities and right-of-use (“ROU”) assets for all leases with terms of more than 12 months on the consolidated balance sheets. We have made an accounting policy election that will keep leases with an initial term of 12 months or less off our consolidated balance sheets and will result in recognizing those lease payments in the consolidated statements of operations on a straight-line basis over the lease term. When management determines that it is reasonably certain that we will exercise our options to renew the leases, the renewal terms are included in the lease term and the resulting ROU asset and operating lease liability balances. We have elected to not capitalize any interest cost that is implicit within our operating leases into cost of construction on the consolidated balance sheet, but instead, we expense our ground lease cost in the consolidated statements of operations.

We have lease agreements with lease and non-lease components; we have elected the accounting policy to not separate lease and non-lease components for all underlying asset classes.

Revenue Recognition

We lease hangar facilities that we construct to third parties. The lease agreements are either on a month-to-month basis or have a defined term and may have options to extend the term. Some of the leases contain options to terminate the lease by either party with given notice. There are no options given to the lessee to purchase the underlying assets. Rental revenue is recognized in accordance with ASC Topic 842, Leases, and includes (i) fixed payments of cash rents, which represents revenue each tenant pays in accordance with the terms of its respective lease and is recognized on a straight-line basis over the term of the lease and (ii) variable payments of tenant reimbursements, which are recoveries of all or a portion of the common area maintenance and operating expenses of the property and are recognized in the same period as the expenses are incurred.

The Company evaluates the collectability of tenant receivables for payments required under the lease agreements. If the Company determines that collectability is not probable, the Company recognizes any difference between revenue amounts recognized to date under ASC 842 and payments that have been collected from the lessee, including security deposit amounts held, as a current period adjustment to rental revenue.

Recent Accounting Pronouncements

See Note 2 — *Basis of Presentation and Significant Accounting Policies* in the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the expected dates of adoption and effects on results of operations and financial condition.

Results of Operations

Three Months Ended March 31, 2023 Compared to the Three Months Ended March 31, 2022

The following table sets forth a summary of our consolidated results of operations for the periods indicated below and the changes between the periods (in thousands).

	Three months ended March 31, 2023	Three months ended March 31, 2022	Change
Revenue:			
Rental revenue	$ 1,107	$ 397	$ 710
Total revenue	1,107	397	710
Expenses:			
Operating	1,792	1,234	558
Depreciation	450	145	305
General and administrative	3,549	4,594	(1,045)
Total expenses	5,791	5,973	(182)
Operating loss	(4,684)	(5,576)	892
Other (income) expense:			
Unrealized loss on warrants	4,210	13,938	(9,728)
Other (income) expense	(133)	-	(133)
Total other (income) expense	4,077	13,938	(9,861)
Net income (loss)	$ **(8,761)**	$ **(19,514)**	$ **10,753**

Revenues

Revenues for the three months ended March 31, 2023 were approximately $1.1 million, compared to approximately $0.4 million for the three months ended March 31, 2022. The $0.7 million, or 179%, increase was primarily the result of tenant leases commencing at our OPF hangar campus during the three months ended March 31, 2023, as well as the impact of certain additional tenant leases in place at our SGR and BNA hangar campuses as compared to the three months ended March 31, 2022.

Operating Expenses

Operating expenses increased approximately $0.6 million, or 45%, for the three months ended March 31, 2023, as compared to the three months ended March 31, 2022. The increase reflects higher operating costs associated with the commencement of operations at our BNA and OPF hangar campuses during the three months ended December 31, 2022 and March 31, 2023, respectively. Salaries, wages, and benefits associated with our campus personnel increased by approximately $0.2 million, primarily driven by headcount increases at our BNA and OPF hangar campuses. Other operating expenses increased approximately $0.4 million, primarily driven by increased insurance, property taxes, and utilities associated with operations at our OPF, BNA, and SGR hangar campuses.

Depreciation Expense

Depreciation increased approximately $0.3 million, or 208%, for the three months ended March 31, 2023, as compared to the three months ended March 31, 2022. The increase reflects the opening of our OPF hangar campus during the three months ended March 31, 2023, the opening of our BNA hangar campus during the three months ended December 31, 2022 and the placement of additional ground support equipment into service throughout 2022 and 2023.

General and Administrative Expenses

For the three months ended March 31, 2023, and 2022, general and administrative expenses were approximately $3.5 million and $4.6 million, respectively. The approximately $1.1 million decrease was primarily due to an approximately $0.8 million decrease in professional fees, which was primarily driven by decreased in legal and accounting related costs due non-recurring transaction costs incurred during the three months ended March 31, 2022, and our efforts to internalize job functions. Marketing and other pursuit costs decreased approximately $0.1 million year-over-year, driven by a reduction in third-party consulting fees, offset by higher travel costs associated with securing airport site acquisitions and potential tenants. Other administrative expenses decreased approximately $0.1 million primarily due to decreased corporate insurance premiums.

Other (Income) Expense

Other (income) expenses decreased from approximately $13.9 million of expense to approximately $4.1 million of expense for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022. This decrease was primarily due to a $9.7 million difference in the mark-to-market adjustment of the outstanding warrants at March 31, 2023 as compared to March 31, 2022.

Liquidity and Capital Resources

Overview

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund the construction of new assets, fund working capital and other general business needs. Our primary sources of cash include the potential issuance of equity and debt securities and rental payments from tenants. Our long-term liquidity requirements include lease payments under our ground leases with airport authorities, repaying principal and interest on outstanding borrowings, funding the construction costs of our HBS campuses (see "— *Construction Material Costs and Labor*"), funding for operations, and paying accrued expenses.

We believe that we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional private activity bonds and other debt and the issuance of additional equity securities. However, as we have recently become a publicly-traded company, we cannot assure you that we will have access to these sources of capital or that, even if such sources of capital are available, that these sources of capital will be available on favorable terms. Our ability to incur additional debt will depend on multiple factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that are or may be imposed by future lenders. Our ability to access the equity and debt capital markets will depend on multiple factors as well, including general market conditions for real estate companies, our degree of leverage, the trading price of our common stock and debt and market perceptions about our Company.

Our cash deposits may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and the majority are maintained with a major financial institution with reputable credit. Our restricted cash is held in trust at a major financial institution pursuant to the Series 2021 Bonds indenture. We monitor the relative credit standing of financial institutions with whom we transact and limit the amount of credit exposure with any one entity. Our portfolio of investments and restricted investments is composed entirely of U.S. Treasury securities as of March 31, 2023.

The following table summarizes our cash and cash equivalents, restricted cash, investments, and restricted investments as of March 31, 2023 and December 31, 2022 (in thousands):

	March 31, 2023	December 31, 2022
Cash and cash equivalents	$ 2,853	$ 2,174
Restricted cash	70,303	39,222
Investments	18,405	24,895
Restricted investments	74,594	114,648
Total cash, restricted cash, investments, and restricted investments	$ 166,155	$ 180,939

Common Stock Purchase Agreement

On August 18, 2022, we entered into a Common Stock Purchase Agreement and a Registration Rights Agreement (collectively referred to as the "Purchase Agreement") with B. Riley Principal Capital, LLC ("B. Riley"). Pursuant to the Purchase Agreement, we have the right, in our sole discretion, to sell to B. Riley up to 10 million shares of our Class A Common Stock at 97% of the volume weighted average price of our Class A Common Stock calculated in accordance with the Purchase Agreement, over a period of 36 months subject to certain limitations and conditions contained in the Purchase Agreement. Sales and timing of any sales of Class A Common Stock are solely at our election, and we are under no obligation to sell any securities to B. Riley under the Purchase Agreement. As consideration for B. Riley's commitment to purchase shares of our Class A Common Stock, we have issued 25,000 shares of our Class A Common Stock to B. Riley as initial commitment shares and may issue up to an aggregate of 75,000 shares of our Class A Common Stock to B. Riley as additional commitment shares if certain conditions are met.

Equity Financing

On January 25, 2022 (the "Closing Date") we completed the transactions (the "Yellowstone Transaction") contemplated by the Equity Purchase Agreement, dated as of August 1, 2021 (the "Equity Purchase Agreement"), between Yellowstone and Sky. On the Closing Date, Yellowstone changed its name to Sky Harbour Group Corporation, and Sky restructured its capitalization, issuing its Sky Common Units to the Company. As a result of the Yellowstone Transaction, the Sky Common Units that Sky issued to BOC YAC in respect of its Series B Preferred Units were converted into 5,500,000 shares of the Company's Class A Common Stock and holders of Sky Common Units received one share of the Company's Class B Common Stock for each Common Unit. As consideration for the issuance of Sky Common Units to the Company, Yellowstone contributed approximately $48 million of net proceeds to us, consisting primarily of the BOC PIPE, and the amount held in the Yellowstone trust account, net of redemptions and transaction costs.

Private Activity Bonds

On September 14, 2021, SHC completed an issuance through the Public Finance Authority (Wisconsin) of $166.3 million of Senior Special Facility Revenue Bonds (Aviation Facilities Project), Series 2021 (the "PABs"). The PABs are comprised of three maturities: $21.1 million bearing interest at 4.00%, due July 1, 2036; $30.4 million bearing interest at 4.00%, due July 1, 2041; and $114.8 million bearing interest at 4.25%, due July 1, 2054. The Series 2021 Bond that has a maturity date of July 1, 2036 was issued at a premium, and Sky received bond proceeds that were $0.2 million above its face value. The net proceeds from the issuance of the PABs proceeds are being used to (a) finance or refinance the construction of various aviation facilities consisting of general aviation aircraft hangars and storage facilities located and to be located on the SGR site, the OPF site, the BNA site, the APA site, and the DVT site; (b) fund debt service and other operating expenses such as ground lease expense during the initial construction period; (c) fund deposits to the Debt Service Reserve Fund; and (d) pay certain costs of issuance related to the PABs.

Debt Covenants

The PABs contain financial and non-financial covenants, including a debt service coverage ratio, a restricted payments test and limitations on the sale, lease, or distribution of assets. To the extent that SHC does not comply with these covenants, an event of default or cross-default may occur under one or more agreements, and we or our subsidiaries may be restricted in our ability to pay dividends, issue new debt or access our leased facilities. The PABs are collateralized on a joint and several basis with the property and revenues of all SHC subsidiaries and their assets financed or to be financed from the proceeds of the PABs.

Covenants in the PABs require SHC to maintain a debt service coverage ratio (as defined in the relevant documents) of at least 1.25 for each applicable test period, commencing with the quarter ending December 31, 2024. The PABs are subject to a Continuing Disclosure Agreement whereby SHC is obligated to provide electronic copies of (i) monthly construction reports, (ii) quarterly reports containing quarterly financial information of SHC and (iii) annual reports containing audited consolidated financial statements of SHC to the Municipal Securities Rulemaking Board. As of March 31, 2023, we were in compliance with all debt covenants.

Lease Commitments

The table below sets forth certain information with respect to our future minimum lease payments required under operating leases as of March 31, 2023 (in thousands):

	Amount Due
2023 (remainder of year)	$ 1,592
2024	2,246
2025	2,304
2026	2,316
2027	2,379
Thereafter	196,645
Total lease payments	207,482
Less imputed interest	(153,649)
Total	$ 53,833

Contractual Obligations

The following table sets forth our contractual obligations as of March 31, 2023 (in thousands):

	2023 (remainder of year)	2024-2025	2026-2027	Thereafter	Total
Principal Payments of Long-Term Indebtedness	$ -	$ -	$ -	$ 166,340	$ 166,340
Interest Payments on Long-Term Indebtedness	3,470	13,881	13,881	126,010	157,242
Lease Commitments	1,592	4,550	4,695	196,645	207,482
Total	$ 5,062	$ 18,431	$ 18,576	$ 488,995	$ 531,064

Interest payments for the next three years on the Series 2021 PABs are held in reserve as restricted cash and restricted investments.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements.

Cash Flows

Historical Cash Flows

The following table summarizes our sources and uses of cash for the three months ended March 31, 2023 and 2022 (in thousands):

	Three months ended	
	March 31, 2023	March 31, 2022
Cash and restricted cash at beginning of period	$ 41,396	$ 203,935
Net cash used in operating activities	(4,553)	(10,164)
Net cash provided by (used in) investing activities	36,313	(178,994)
Net cash provided by financing activities	-	51,869
Cash and restricted cash at end of period	$ 73,156	$ 66,646

Operating Activities

Cash provided by operating activities is significantly influenced by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business. Included in net cash provided by operations are certain non-recurring legal, accounting, and consulting costs incurred for up to four quarters as a result of becoming a public company. Our working capital consists primarily of cash, receivables from tenants, prepaid expenses, accounts payable, accrued compensation, accrued other expenses, and lease liabilities. The timing of collection of our tenant receivables, and the timing of spending commitments and payments of our accounts payable, accrued expenses, accrued payroll and related benefits, all affect these account balances.

Net cash used in operating activities was approximately $4.6 million for the three months ended March 31, 2023, as compared to cash used in operating activities of approximately $10.2 million for the same period in 2022. The $5.6 million decrease in cash used in operating activities was primarily attributable to a $4.0 million favorable change in the Company's working capital position, which was partially driven by a reduction in corporate insurance premiums paid during the three months ended March 31, 2023 as compared to the three months ended March 31, 2022. The decrease was also partially attributable to a $1.6 million decrease in net loss, net of non-cash adjustments. The decrease in net loss was primarily driven by non-recurring general and administrative expenses incurred in the expansion of our business, including transaction-related expenses incurred during the three months ended March 31, 2022.

Investing Activities

Our primary investing activities have consisted of payments related to the cost of construction at our various HBS hangar campus development projects and investment in U.S. Treasury Securities. As our business expands, we expect to continue to invest in our current and anticipated future portfolio of HBS development projects.

Cash provided by investing activities was approximately $36.3 million for the three months ended March 31, 2023, as compared to cash used in investing activities of approximately $179.0 million for the same period in 2022. The increase of approximately $215.3 million in cash provided by investing activities was driven primarily by the approximately $166.6 million purchase of held-to-maturity U.S. Treasury securities during the three months ended March 31, 2022, as compared to no purchase activity and approximately $40.0 million of proceeds received during the three months ended March 31, 2023. The increase was also attributable to a $3.5 million decrease in payments for costs of construction due to the Company’s ongoing construction projects at OPF, APA, DVT, and ADS, and proceeds of approximately $6.7 million received related to certain of the Company's available for sale investments during the three months ended March 31, 2023.

Financing Activities

Our primary financing activities have consisted of capital raised to fund the growth of our business and proceeds from debt obligations incurred to finance our HBS hangar campus development projects. We expect to raise additional equity capital and issue additional indebtedness as our business grows.

Net cash provided by financing activities was $0 for the three months ended March 31, 2023, as compared to net cash provided by financing activities of approximately $51.9 million for the same period in 2022. The approximately $51.9 million decrease in net cash provided by financing activities was primarily driven by $45.0 million of proceeds received from the issuance of the BOC PIPE and approximately $6.9 million of net proceeds from the Yellowstone trust account, both occurring during the three months ended March 31, 2022 and not recurring during the three months ended March 31, 2023.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. In pursuing our business and investment objectives, we expect that the primary market risk to which we will be exposed is interest rate risk. Following the issuance of the PABs, all of our indebtedness is now fixed rate debt. However, we may enter into variable rate debt agreements in the future, in which case we intend to hedge against rising benchmark interest rates by entering into hedging strategies with high quality counterparties.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2023. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not currently a party to any material legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our 2021 Annual Report on Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(a) See accompanying Exhibit Index included before the signature page of this report for a list of exhibits filed or furnished with this report.

Exhibit Number	Description	Incorporated by Reference Schedule/ Form	File No.	Exhibit	Filing Date
3.1	Second Amended and Restated Certificate of Incorporation of Yellowstone Acquisition Company.	8-K	001-39648	3.1	January 31, 2022
3.2	Bylaws of Sky Harbour Group Corporation.	8-K	001-39648	3.2	January 31, 2022

31.1 (#)	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).
31.2 (#)	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1 (##)	Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
32.2 (##)	Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
101.INS (#)	Inline XBRL Instance Document.
101.SCH (#)	Inline XBRL Taxonomy Extension Schema Document.
101.CAL (#)	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF (#)	Inline XBRL Taxonomy Extension Definition.
101.LAB (#)	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE (#)	Inline XBRL Taxonomy Presentation Linkbase Document.
104 (#)	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

(#) Filed herewith.

(##) The certifications attached as Exhibits 32.1 and 32.2 that accompany this Report, are not deemed filed with the SEC and are not to be incorporated by reference into any filing of Sky Harbour Group Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SKY HARBOUR GROUP CORPORATION
(Registrant)

By: /s/ Tal Keinan
Tal Keinan
Chief Executive (Principal Executive Officer)

May 12, 2023

By: /s/ Francisco Gonzalez
Francisco Gonzalez
Chief Financial Officer (Principal Financial Officer)

May 12, 2023

By: /s/ Michael W. Schmitt
Michael W. Schmitt
Chief Accounting Officer
(Principal Accounting Officer)

May 12, 2023

Exhibit 31.1

CERTIFICATIONS

I, Tal Keinan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sky Harbour Group Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2023

/s/ Tal Keinan
Tal Keinan, Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Francisco Gonzalez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sky Harbour Group Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2023

/s/ Francisco Gonzalez
Francisco Gonzalez, Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sky Harbour Group Corporation (the "Company") on Form 10-Q for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2023

/s/ Tal Keinan
Tal Keinan, Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sky Harbour Group Corporation (the "Company") on Form 10-Q for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2023

/s/ Francisco Gonzalez
Francisco Gonzalez, Chief Financial Officer
(Principal Financial Officer)