

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the nine months ended September 30, 2018 and 2017

Horizon Group Properties, Inc.
Condensed Consolidated Financial Statements
(Unaudited)

Contents

Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017.....	3
Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2018 and September 30, 2017	4
Condensed Consolidated Statements of Operations for the Nine Months Ended September 30, 2018 and September 30, 2017	5
Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2018 and September 30, 2017	6
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and September 30, 2017	7
Notes to Condensed Consolidated Financial Statements.....	9

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Balance Sheets
(unaudited)

	September 30, 2018	December 31, 2017
	<i>(In thousands)</i>	
ASSETS		
Real estate – at cost:		
Land	\$ 11,574	\$ 10,574
Buildings and improvements	46,454	45,680
Less accumulated depreciation	(7,437)	(4,204)
	50,591	52,050
Construction in progress	6,208	3,848
Land held for investment	26,420	27,542
Total net real estate	83,219	83,440
Investment in and advances to joint ventures	33,642	29,822
Investment in and advances to joint ventures, at fair value	48,361	49,237
Cash and cash equivalents	1,464	4,003
Restricted cash	3,025	7,162
Marketable securities, at fair value	-	9,312
Tenant and other accounts receivable, net	2,717	1,316
Deferred costs (net of accumulated amortization of \$106 and \$46, respectively)	245	267
Other assets	1,107	927
Total assets	\$ 173,780	\$ 185,486
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages and other debt	\$ 63,040	\$ 64,478
Accounts payable and other accrued expenses	12,908	17,764
Prepaid rents and other tenant liabilities	305	304
Total liabilities	76,253	82,546
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, and 8,735 shares issued and outstanding)	87	87
Additional paid-in capital	81,697	81,668
Accumulated deficit	(25,147)	(18,291)
Total stockholders' equity attributable to the controlling interest	56,637	63,464
Noncontrolling interests in consolidated subsidiaries	40,890	39,476
Total stockholders' equity	97,527	102,940
Total liabilities and stockholders' equity	\$ 173,780	\$ 185,486

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Operations
(unaudited)

	<u>Three months ended September 30, 2018</u>	<u>Three months ended September 30, 2017</u>
<i>(In thousands)</i>		
REVENUE		
Base rent	\$ 1,926	\$ 2,091
Percentage rent	104	110
Expense recoveries	198	204
Restaurant revenue	1,033	1,045
Other	696	751
Interest	2	27
Total revenue	<u>3,959</u>	<u>4,228</u>
EXPENSES		
Property operating	645	685
Real estate taxes	298	331
Other operating	240	260
Depreciation and amortization	1,131	720
General and administrative	1,847	2,250
Restaurant operating	1,118	940
Interest	773	808
Total expenses	<u>6,052</u>	<u>5,994</u>
Income from investment in joint ventures	<u>8</u>	<u>95</u>
Consolidated net loss before loss on sale of real estate and gain on abandonment of assets	<u>(2,085)</u>	<u>(1,671)</u>
Loss on sale of real estate	(164)	(2,001)
Gain on abandonment of assets	<u>1,749</u>	<u>-</u>
Consolidated net loss	(500)	(3,672)
Less net loss attributable to the noncontrolling interests	<u>106</u>	<u>1,716</u>
Net loss attributable to the Company	<u>\$ (394)</u>	<u>\$ (1,956)</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Operations
(unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
<i>(In thousands)</i>		
REVENUE		
Base rent	\$ 5,699	\$ 6,072
Percentage rent	169	241
Expense recoveries	648	620
Restaurant revenue	2,567	2,659
Other	2,133	5,041
Total revenue	11,216	14,633
EXPENSES		
Property operating	2,174	2,198
Real estate taxes	955	944
Other operating	630	559
Depreciation and amortization	3,298	2,445
General and administrative	5,985	6,637
Restaurant operating	2,932	2,759
Interest	2,299	2,333
Total expenses	18,273	17,875
OTHER INCOME AND EXPENSE		
Income (loss) from investment in joint ventures	(817)	858
Gain (loss) on sale of real estate	53	(2,001)
Loss on abandonment of assets	(773)	-
Total other income and expense	(1,537)	(1,143)
Consolidated net loss	(8,594)	(4,385)
Less net loss attributable to the noncontrolling interests	1,738	1,698
Net loss attributable to the Company	\$ (6,856)	\$ (2,687)

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Stockholders' Equity
 Nine Months Ended September 30, 2018 and 2017
(unaudited, in thousands)

	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2018	\$ 87	\$ 81,668	\$ (18,291)	\$ 63,464	\$ 39,476	\$ 102,940
Net loss	-	-	(6,856)	(6,856)	(1,738)	(8,594)
Stock issued to related parties	-	29	-	29	-	29
Contributions from noncontrolling interests	-	-	-	-	4,453	4,453
Distributions to noncontrolling interests	-	-	-	-	(1,301)	(1,301)
Balance, September 30, 2018	<u>\$ 87</u>	<u>\$ 81,697</u>	<u>\$ (25,147)</u>	<u>\$ 56,637</u>	<u>\$ 40,890</u>	<u>\$ 97,527</u>

	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2017	\$ 86	\$ 81,271	\$ -	\$ 81,357	\$ 43,417	\$ 124,774
Net loss	-	-	(2,687)	(2,687)	(1,698)	(4,385)
Stock issued to related parties	1	387	-	388	-	388
Distributions to noncontrolling interests	-	-	-	-	(1,835)	(1,835)
Consolidation of Woodstock GA Investments	-	1,000	-	1,000	1,931	2,931
Balance, September 30, 2017	<u>\$ 87</u>	<u>\$ 82,658</u>	<u>\$ (2,687)</u>	<u>\$ 80,058</u>	<u>\$ 41,815</u>	<u>\$ 121,873</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows used in operating activities:	<i>(In thousands)</i>	
Net loss attributable to the Company	\$ (6,856)	\$ (2,687)
Adjustments to reconcile net loss attributable to the Company to net cash provided by (used in) operating activities:		
Operating distributions from joint ventures	2,289	1,873
Net loss attributable to the noncontrolling interests	(1,738)	(1,698)
(Income) Loss from investment in joint ventures	817	(858)
Loss (gain) from sale of real estate	(217)	2,001
Abandonment of future development	773	-
Depreciation	3,238	2,402
Amortization	60	43
Interest expense from deferred finance costs	98	267
Changes in assets and liabilities:		
Tenant and other accounts receivable	(1,401)	19
Deferred costs and other assets	(386)	(491)
Accounts payable and other accrued liabilities	(4,856)	811
Prepaid rents and other tenant liabilities	1	66
Net cash provided by (used in) operating activities	(8,178)	1,748
Cash flows provided by (used in) investing activities:		
Investment in future developments	(923)	(1,853)
Investment in joint ventures	(7,859)	-
Proceeds from sale of marketable securities	9,318	-
Restricted Cash	4,137	(6,634)
Net proceeds from sale of real estate	450	3,901
Distributions from joint ventures, return of capital	2,121	22,078
Expenditures for buildings and improvements	(3,250)	(977)
Net cash provided by investing activities	3,994	16,515
Cash flows provided (by used in) financing activities:		
Distributions to noncontrolling interests	(1,301)	(1,835)
Contributions from noncontrolling interests	4,453	-
Principal payments on mortgages and other debt	(1,536)	(2,529)
Stock issued	29	388
Net cash provided by (used in) financing activities	1,645	(3,976)
Net increase (decrease) in cash and cash equivalents	(2,539)	14,287
Cash and cash equivalents:		
Beginning of year	4,003	7,623
End of year	\$ 1,464	\$ 21,910

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	<u>Nine Months Ended</u> <u>September 30, 2018</u>	<u>Nine Months Ended</u> <u>September 30, 2017</u>
	<i>(In thousands)</i>	
Noncash activity related to the disposal of fully depreciated or amortized assets		
Building and improvements	\$5	\$41

The following represents supplemental disclosure of noncash activity for the purchase of the membership interest and consolidation of the assets and liabilities of Woodstock GA Investments (WGI) and Ridgewalk Property Investments, LLC (RPI) on March 29, 2017, by Horizon Atlanta (see Note 4):

Land	\$ 6,418
Construction in progress	1,041
Mortgage and other debt	(2,446)
Accounts payable and other accrued expenses	(862)
Investment in joint venture	(1,220)
Non-controlling interest	<u>(1,931)</u>
Purchase of membership interest	<u>\$ 1,000</u>
Seller financed note included in Mortgage and other debt	<u>\$ 1,000</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(*unaudited*)

Note 1 – Organization and Basis of Presentation

Horizon Group Properties, Inc. (“HGPI” or, together with its subsidiaries “HGP” or the “Company”) is a Maryland corporation that was established on June 15, 1998. The operations of the Company are conducted primarily through a subsidiary limited partnership, Horizon Group Properties, L.P. (“HGP LP”) of which HGPI is the sole general partner. As of September 30, 2018 and December 31, 2017, HGPI owned approximately 87% of the partnership interests (the “Common Units”) of HGP LP. In general, Common Units are exchangeable for shares of Common Stock on a one-for-one basis (or for an equivalent cash amount at HGPI’s election).

The accompanying unaudited condensed consolidated financial statements include the accounts of all majority-owned subsidiaries, and all significant intercompany amounts have been eliminated. Due to the seasonal nature of certain operational activities, among other factors, the results for the interim period ended September 30, 2018 are not necessarily indicative of the results that may be obtained for the full fiscal year.

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include selected information and disclosures for the interim periods. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2017.

The Company’s primary assets are its investments in subsidiary entities that own real estate. HGPI consolidates the results of operations and the balance sheets of those entities of which the Company owns the majority interest and of those variable interest entities of which the Company is the primary beneficiary. The Company accounts for its investments in entities which do not meet these criteria using the equity or cost method. The entities referred to herein are consolidated subsidiaries of the Company, unless they are discussed in Note 4, those entities are accounted for using the equity method of accounting or the cost method, as identified.

Note 2 - Summary of Significant Accounting Policies

The condensed consolidated financial statements have been prepared in conformity with GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including disclosure of contingent assets and liabilities) at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations for the interim periods presented have been included in these condensed consolidated financial statements and are of a normal and recurring nature.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of HGPI and all subsidiaries that HGPI controls, including HGP LP. The Company considers itself to control an entity if it is the majority owner of or has voting control over such entity. All significant intercompany balances and transactions are eliminated in consolidation. In accordance with GAAP, the Company also consolidates variable interest entities if it is that entity’s primary beneficiary.

Pre-Development Costs

The pre-development stage of a project involves certain costs to ascertain the viability of a potential project and to secure the necessary land. Direct costs to acquire the assets are capitalized as future development costs once the acquisition becomes probable. These costs are carried in Other Assets until conditions are met that indicate that development is forthcoming, at which point the costs are reclassified to Construction in Progress. In the event a development is deemed no longer probable and costs are deemed non-recoverable, the applicable costs

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(*unaudited*)

previously capitalized are expensed when the project is abandoned or these costs are determined to be non-recoverable.

At September 30, 2018, pre-development costs classified as Other Assets and Construction in Progress for projects in Cleveland, OH and Woodstock, GA totaled \$405,000 and \$6.2 million respectively. At December 31, 2017, predevelopment costs classified as Other Assets and Construction in Progress for projects in Cleveland, OH and Woodstock, GA totaled \$181,000 and \$3.8 million, respectively.

During March of 2018, the Company decided to cease development of projects in Hartford, CT, and Malaysia. The Company recognized a loss on abandonment of \$773,000 for the nine months ended September 30, 2018. The Company also recognized a loss on abandonment of \$14.8 million during 2017.

Restaurant Revenue and Operating Expense

The Company owns four Johnny Rockets restaurants at the outlet malls in Oshkosh WI, Atlanta GA, Louisville, KY and Laredo, TX. In addition, the Company owns Border Dogs and Stone and Stein restaurants in Laredo, TX. Revenue is derived from sales of various food products, and operating expenses are primarily from cost of sales, supplies, payroll, franchise fees, and rent.

Revenue Recognition

Leases with tenants are accounted for as operating leases. Minimum annual rentals are recognized on a straight-line basis over the terms of the respective leases. Rents that represent basic occupancy costs, including fixed amounts and amounts computed as a function of sales, are classified as base rent. Amounts which may become payable in addition to base rent and which are computed as a function of sales in excess of certain thresholds are classified as percentage rents and are accrued after the reported tenant sales exceed the applicable thresholds. Expense recoveries based on common area maintenance expenses and certain other expenses are accrued in the period in which the related expense is incurred.

Other Revenue

Other revenue consists of income from management, leasing and development agreements, and income from tenants with lease terms of less than one year.

Income Taxes

Deferred income taxes are recorded based on enacted statutory rates to reflect the tax consequences in future years of the differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets, such as net operating loss carryforwards which will generate future tax benefits, are recognized to the extent that realization of such benefits through future taxable earnings or alternative tax strategies in the foreseeable future is more likely than not.

As of September 30, 2018 and December 31, 2017 and for the periods then ended, the Company did not have a net liability for any unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as interest or general and administrative expense in the statement of operations. For the periods ended September 30, 2018 and 2017, the Company did not incur any interest or penalties.

Investments in Joint Ventures

The Company uses the equity method of accounting for its investments in Joint Ventures, as the Company is able to significantly influence the operations of the underlying investment, but does not control the underlying investment. The investments are recorded at initial cost and adjusted for the Company's proportionate share of income or loss. Contributions and distributions are treated as additions or reductions of the investments' cost basis.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

The Company elected the fair value option for its investment in the Outlet Shoppes in Woodstock and Louisville. Due to the nature of these investments, including consideration of the project lifecycle and geographic location, the Company elected the fair value option to more accurately present the Company's portion of the value and changes thereof in the underlying investments. Changes in the fair value of the joint ventures are recorded as a component of income from investment in joint ventures on the consolidated statement of operations.

Distributions are reported in cash flows from operations unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital, which would then be presented as cash flows from investing activities.

Subsequent Events

The Company has evaluated subsequent events through November 30, 2018, the date the condensed consolidated financial statements were available to be issued.

Note 3 – Investment in Real Estate

The following tables contains information on the operating properties, restaurants, and land held for investment owned by the Company and for which the Company consolidates the results of operations and the assets and liabilities as of September 30, 2018 (in thousands):

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Gross Leasable Area (Sq. Ft.)</u>	<u>Net Carrying Value (in thousands)</u>	<u>Ownership Percentage</u>
The Outlet Shoppes at Burlington	Burlington, WA	Outlet Retail	174,660	\$ 9,008	51.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	228,932	7,238	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	29,219	51.0%
Village Green	Huntley, IL	Retail	22,204	3,303	100.0%
Johnny Rockets	Oshkosh, WI	Restaurant	N/A	178	100.0%
Johnny Rockets	Woodstock, GA	Restaurant	N/A	267	100.0%
Johnny Rockets	Louisville, KY	Restaurant	N/A	432	100.0%
Johnny Rockets	Laredo, TX	Restaurant	N/A	539	100.0%
Border Dogs	Laredo, TX	Restaurant	N/A	27	100.0%
Stone and Stein	Laredo, TX	Restaurant	N/A	335	100.0%
Corporate Assets	Norton Shores, MI	Miscellaneous	<u>N/A</u>	<u>45</u>	100.0%
	Total		<u>696,308</u>	<u>\$50,591</u>	
			<u>Acres</u>		
Land Held for Investment	Fruitport, MI	Land	6	\$ 156	100.0%
Laredo Phase II Land	Laredo, TX	Land	2	2,000	100.0%
Ridgewalk Land	Woodstock, GA	Land	107	4,072	51.0%

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

Land Held for Investment	Huntley, IL	Land	<u>355</u>	<u>20,192</u>	100.0%
	Total		<u>470</u>	<u>\$ 26,420</u>	

The Company reclassified the Ridgewalk land from Land to Land held for investment during 2018. The corresponding balances in 2017 were also reclassified for comparison purposes. Prior to 2018, a large portion of the Ridgewalk land was developed and sold to Costco. The current plan is to hold the remaining land and sell it to other developers with only infrastructure improvements.

The portion of the net income or loss of HGPI's subsidiaries owned by parties other than HGPI is reported as Net Income or Loss Attributable to the Noncontrolling Interests on the Company's condensed consolidated statements of operations and such parties' portion of the net equity in such subsidiaries is reported on the Company's condensed consolidated balance sheets as Noncontrolling Interests in Consolidated Subsidiaries.

Note 4 - Investment in Joint Ventures

The following table contains information and the effective ownership percentage attributable to the Company for the joint venture outlet centers in operation or development as of September 30, 2018. In addition, the joint ventures' own out parcels and other land for development.

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Leasable Area (Sq. Ft.)</u>	<u>Ownership Percentage</u>
The Outlet Shoppes at Laredo	Laredo, TX	Outlet Retail	357,866	21.30%
The Outlet Shoppes at El Paso	El Paso, TX	Outlet Retail	433,045	24.41%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail	249,937	19.06%
The Outlet Shoppes at Atlanta	Woodstock, GA	Outlet Retail	413,969	22.07%
The Outlet Shoppes of the Bluegrass	Louisville, KY	Outlet Retail	<u>428,060</u>	30.78%
	Total		<u>1,882,877</u>	

El Paso Entities

The Company owns 97.4% of the preferred interests and 92.8% of the common interests at September 30, 2018 and December 31, 2017 in Horizon El Paso, LLC ("Horizon El Paso"), which owns a 25% joint venture interest in El Paso Outlet Center Holding, LLC ("El Paso Holding"). El Paso Holding owns an entity that owns the outlet shopping center in El Paso, TX (the "El Paso Center"). Horizon El Paso owns a 50% joint venture interest in El Paso Outlet Outparcels, LLC that owns several outparcels and ancillary land adjacent to the shopping center (the "Outparcels").

On September 10, 2018, Deutsche Bank refinanced the loans on phases I and II of The Outlet Shoppes at El Paso. Phase I and II of Outlet Shoppes at El Paso secure the loan. The loan, for \$75 million, bears interest at 5.103% per year. Payments of \$407,350 per month are based on a 30-year amortization schedule. The loan matures on October 6, 2028. The principal balance at September 30, 2018 was \$75.0 million.

On September 5, 2017, the loan on phase I of Outlet Shoppes at El Paso was refinanced by Mortgage Holdings, LLC, an affiliate of CBL & Associates Properties, Inc. ("CBL"). Phase I of Outlet Shoppes at El Paso secured the loan. The loan, for \$61.5 million, bore interest at 7.05% per year. Payments of \$468,500 per month are based on a 30 year amortization schedule. The loan matured on September 10, 2018.

El Paso Outlet Center II Expansion is 100% owned by El Paso Outlet Center II, LLC, which is owned 25% by Horizon El Paso and 75% by CBL. The construction was financed by a 48-month construction loan with an interest rate of LIBOR plus 2.75%. The loan matured on September 10, 2018.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

The balance of the matured loans for phase I and phase II at December 31, 2017 were \$61.3 million and \$6.6 million respectively.

The Company received management, leasing and similar fees from El Paso Center that totaled \$291,000 and \$730,000 during the three and nine months ended September 30, 2018 and \$311,000 and \$668,000 during the three and nine months September 30, 2017.

Summary financial information (stated at 100%) for the entities that own the El Paso Center, the Outparcels and the Expansion Land as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017 are as follows (in thousands):

	As of September 30, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 91,746	\$ 93,154
Cash and cash equivalents	384	770
Restricted cash	2,101	3,239
Other assets	1,889	1,311
Total assets	<u>\$ 96,120</u>	<u>\$ 98,474</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 75,000	\$ 67,865
Other liabilities	2,514	3,166
Members' equity	18,606	27,443
Total liabilities and members' equity	<u>\$ 96,120</u>	<u>\$ 98,474</u>

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Statements of Operations				
Revenue	<u>\$ 3,671</u>	<u>\$ 2,900</u>	<u>\$ 11,005</u>	<u>\$ 10,660</u>
Operating expenses	1,540	52	4,441	2,253
General and administrative expenses	219	242	654	754
Depreciation and amortization expense	1,006	1,028	2,996	3,216
Interest expense	1,147	1,285	3,509	3,922
Total expenses	<u>3,912</u>	<u>2,607</u>	<u>11,600</u>	<u>10,145</u>
Gain (loss) on sale of land	-	-	-	-
Net income (loss)	<u>\$ (241)</u>	<u>\$ 293</u>	<u>\$ (595)</u>	<u>\$ 515</u>

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

Oklahoma City Entities

In October 2010, the Company formed OKC JV, LLC (the “OKC Joint Venture”) with an affiliate of CBL to develop The Outlet Shoppes at Oklahoma City. The Company formed a subsidiary entity (“Horizon OKC”) to be CBL’s partner in the OKC Joint Venture.

On April 28, 2017, OKC JV, LLC sold the OKC Joint Venture for approximately \$130 million. The portion allocated to the Company approximated the carrying value of the Company’s investment in OKC JV, LLC. Prior to the sale Horizon OKC met the return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL, increasing the Company’s share of distributions from the OKC Joint Venture increased from 30% to 35%.

The Company received development, leasing, management and similar fees from the OKC Joint Venture that totaled \$974,000 for the period through April 28, 2017.

Summary financial information (stated at 100%) of the OKC Joint Venture for the period from January 1, 2017 to April 28, 2017 are as follows (in thousands):

	Nine Months Ended September 30, 2017
Statements of Operations	
Revenue	\$ 2,577
Operating expenses	773
General and administrative expenses	172
Depreciation and amortization expense	1,048
Interest expense	1,182
Total expenses	3,175
Net loss	\$ (598)

Gettysburg Entities

Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the Gettysburg entities) are owned (1) 50% by an affiliate of CBL, (2) 29.8% by Pleasant Lake – Skoien Investments, LLC (PL Skoien), (3) 1.1% by other entities, and (4) 19.1% by the Company. Howard Amster and Gary Skoien own PL Skoien. Howard Amster is a significant shareholder and director of the Company. Gary Skoien is Chairman of the Board, Chief Executive Officer, President, and a shareholder of the Company. Gettysburg Outlet Center Holding, LLC, owns Gettysburg Outlet Center, LP, which owns the shopping center. Gettysburg Outlet Center LLC owns vacant land around the shopping center.

The mortgage loan for Gettysburg Outlet Center, LP is secured by the shopping center, had an initial balance of \$38.5 million, bears interest at 4.8% and matures in 2025. The mortgage balance was \$37.9 and \$38.3 million at September 30, 2018 and December 31, 2017, respectively.

The members of the Gettysburg entities accrue a 10% return (Returns) on capital invested. Cash distributions go first to CBL and PL Skoien, then to the Company and Bright Horizons to pay accrued returns.

The Company received management, leasing and similar fees from Gettysburg that totaled \$44,000 and \$188,000 during the three and nine months ended September 30, 2018 and \$46,000 and \$141,000 during the three and nine months ended September 30, 2017.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

Summary financial information (stated at 100%) of the Gettysburg entities as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017 is as follows (in thousands):

	As of September 30, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 41,138	\$ 41,656
Cash and cash equivalents	400	527
Restricted cash	655	1,020
Other assets	1,379	1,221
Total assets	<u>\$ 43,572</u>	<u>\$ 44,424</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 37,912	\$ 38,354
Other liabilities	565	498
Members' equity	5,095	5,572
Total liabilities and members' equity	<u>\$ 43,572</u>	<u>\$ 44,424</u>

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Statements of Operations				
Revenue	\$ 1,483	\$ 1,612	\$ 4,522	\$ 4,812
Operating expenses	605	493	1,833	1,765
General and administrative expenses	77	92	222	233
Depreciation and amortization expense	382	385	1,133	1,138
Interest expense	473	474	1,395	1,411
Total expenses	<u>1,537</u>	<u>1,444</u>	<u>4,583</u>	<u>4,547</u>
Loss on sale of land	-	-	-	-
Net income (loss)	<u>\$ (54)</u>	<u>\$ 168</u>	<u>\$ (61)</u>	<u>\$ 265</u>

Atlanta Entities

The Company entered into a joint venture (the "Atlanta JV") with an affiliate of CBL and developed of an outlet center in Woodstock, Georgia named The Outlet Shoppes at Atlanta. The Company formed a subsidiary entity, Horizon Atlanta Outlet Shoppes, LLC (Horizon Atlanta) to be CBL's partner in Atlanta JV. The Company owns 48.3% of the preferred interests and 44.3% of the common interests in Horizon Atlanta, but maintains voting control over Horizon Atlanta. The Atlanta JV is owned 25% by Horizon Atlanta and 75% by CBL. The Company is responsible for the leasing and management of the center. In December of 2013, the Company met return of investment and internal rate of return criteria stipulated in the joint venture agreement; therefore, the Company's share of future distributions increased from 25% to 35%.

The Atlanta JV purchased approximately 50 acres of land for the project from Ridgewalk Holding, LLC ("Holding"). Ridgewalk Property Investments, LLC ("RPI") is the managing member of Holding. The Company

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

and an affiliate of CBL own 25% and 75%, respectively, of Woodstock GA Investments (WGI). WGI lent RPI \$6.0 million, which was contributed to Holding and, together with the proceeds from the sale of the parcel to Atlanta JV, were used to retire a loan secured by the land owned by Holding. In connection with its loan to RPI, WGI acquired an equity interest in RPI that is entitled to 30% of the economic interest in Holding. After the sale of the parcel to Atlanta JV, Holding owns approximately 123 acres of vacant land near The Outlet Shoppes at Atlanta

On October 11, 2013, the Atlanta JV obtained an \$80.0 million loan from an affiliate of Goldman Sachs (the "Atlanta Loan"). The Atlanta Loan has a term of 10 years and bears interest at 4.9%. Payments are based on a 30 year amortization. The Atlanta Loan is secured by a mortgage on The Outlet Shoppes at Atlanta. The loan balance was \$73.6 million and \$74.7 million at September 30, 2018 and December 31, 2017 respectively.

On May 13, 2015 the Atlanta JV closed on a \$6,200,000 construction loan for Atlanta Outlet Shoppes Phase II. The loan carries an initial interest rate of LIBOR plus 2.5%, and matures on December 19, 2019. This loan was cross-defaulted and cross-collateralized with the Outparcel 5 loan which closed on December 19, 2014. The loan balance was \$4.6 million and \$4.7 million at September 30, 2018 and December 31, 2017, respectively.

The Company received management, leasing and similar fees from the Atlanta JV that totaled \$204,000 and \$507,000 during the three and nine months ended September 30, 2018 and \$112,000 and \$199,000 during the three and nine months ended September 30, 2017.

Summary financial information (stated at 100%) of the Atlanta JV and Woodstock GA Investments as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017 is as follows (in thousands):

	As of September 30, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 52,387	\$ 54,940
Cash and cash equivalents	1,094	1,155
Restricted cash	1,290	669
Other assets	4,022	5,181
Total assets	<u>\$ 58,793</u>	<u>\$ 61,945</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 78,215	\$ 79,407
Other liabilities	826	948
Members' deficit	(20,248)	(18,410)
Total liabilities and members' deficit	<u>\$ 58,793</u>	<u>\$ 61,945</u>

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Statements of Operations				
Revenue	\$ 3,558	\$ 3,603	\$ 10,571	\$ 10,684
Operating expenses	903	911	2,539	2,592
General and administrative expenses	132	134	396	404
Depreciation and amortization expense	1,127	1,130	3,431	3,600
Interest expense	992	998	2,983	3,023
Total expenses	<u>3,154</u>	<u>3,173</u>	<u>9,349</u>	<u>9,619</u>
Gain (loss) on sale of land	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
Net income	<u>\$ 404</u>	<u>\$ 430</u>	<u>\$ 1,221</u>	<u>\$ 1,065</u>

Bluegrass Entities

During 2013, the Company entered into a joint venture (the “Louisville JV”) with an affiliate of CBL and developed an outlet center in Louisville, Kentucky named The Outlet Shoppes of the Bluegrass. The Company formed a subsidiary entity (Horizon Louisville) to be CBL’s partner in the Louisville JV. The Company owns 44.7% of the preferred interests and 34.4% of the common interests in Horizon Louisville, but maintains voting control over Horizon Louisville. The Louisville JV is owned 25% by Horizon Louisville and 75% by CBL. The Company is responsible for the leasing and management of the center.

On November 24, 2014, the Louisville JV obtained a \$77.5 million loan from JP Morgan (the “Louisville Loan”). The Louisville Loan has a term of 10 years and bears interest at 4.045%. Payments are based on a 30 year amortization. The Louisville Loan is secured by a mortgage on The Outlet Shoppes of the Bluegrass. The loan balance was \$72.1 million and \$73.2 million at September 30, 2018 and December 31, 2017, respectively.

On July 15, 2015, the Louisville JV established Bluegrass Outlet Shoppes II, LLC and closed on an \$11.3 million construction loan to develop additional retail space at the Outlet Shoppes of the Bluegrass. The loan has a term of 60 months and an initial interest rate of LIBOR plus 2.35%. The loan balance was \$9.5 million and \$9.7 million at September 30, 2018 and December 31, 2017, respectively.

The Company received management, leasing and similar fees from the Louisville JV that totaled \$112,000 and 365,000 during the three and nine months ended September 30, 2018 and \$100,000 and \$387,000 during the three and nine months ended September 30, 2017.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

Summary financial information (stated at 100%) of the Louisville JV as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017 is as follows (in thousands):

	As of September 30, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 63,251	\$ 66,232
Cash and cash equivalents	859	1,814
Restricted cash	2,124	867
Other assets	4,863	4,884
Total assets	<u>\$ 71,097</u>	<u>\$ 73,797</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 81,669	\$ 82,990
Other liabilities	1,182	1,082
Members' deficit	(11,754)	(10,275)
Total liabilities and members' deficit	<u>\$ 71,097</u>	<u>\$ 73,797</u>

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Statements of Operations				
Revenue	<u>\$ 3,748</u>	<u>\$ 3,441</u>	<u>\$ 10,853</u>	<u>\$ 10,167</u>
Operating expenses	723	706	2,270	2,082
General and administrative expenses	138	143	424	404
Depreciation and amortization expense	1,289	1,258	3,869	4,289
Interest expense	891	889	2,672	2,692
Total expenses	<u>3,041</u>	<u>2,996</u>	<u>9,235</u>	<u>9,467</u>
Loss on sale of land	-	-	-	15
Net income	<u>\$ 707</u>	<u>\$ 445</u>	<u>\$ 1,618</u>	<u>\$ 715</u>

Laredo Outlet Shoppes

On May 10, 2016, the Company, CBL, and Lawrence Friedman formed a joint venture, Laredo Outlet JV, LLC (Laredo JV) to continue the development of an outlet shopping center in Laredo, Texas. The new venture is owned 65% by CBL and 35% by the Company. Lawrence Friedman is a Class B member and will participate in distributions after certain internal rate of return hurdles are met. The shopping center opened in March of 2017.

On May 13, 2016, Laredo JV closed on a construction loan to finance the construction of the center. The loan has a maximum principal balance of \$91.3 million, a 36-month term and one 24-month extension option. Interest will accrue on the loan at LIBOR plus 2.5% until the development reaches 90% occupancy, at which time the

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

interest rate will drop to LIBOR plus 2.25%. At September 30, 2018 and December 31, 2017, the loan balance was \$60.0 million and \$80.1 million, respectively.

On May 31, 2018, the Company and its partner, CBL, made a \$22.4 million principal payment on the construction loan for the Outlet Shoppes at Laredo. The Company's share of the payment was \$7.9 million. In December of 2018, the Company and CBL will made an additional \$5 million principal payment.

The Company received management, leasing development and similar fees from the Laredo JV that totaled \$177,000 and \$279,000 for the three and nine months ended September 30, 2018 and \$100,000 and \$1.8 million for the three and nine months ended September 30, 2017.

Summary financial information (stated at 100%) of the Laredo JV as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 is as follows (in thousands):

	As of September 30, 2018	As of December 31, 2017
Assets		
Real estate - net	\$ 103,487	\$ 105,425
Cash and cash equivalents	1,652	1,131
Restricted cash	386	294
Other assets	3,081	3,764
Total assets	<u>\$ 108,606</u>	<u>\$ 110,614</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 60,000	\$ 80,145
Other liabilities	2,845	1,911
Members' equity	45,761	28,558
Total liabilities and members' deficit	<u>\$ 108,606</u>	<u>\$ 110,614</u>

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Statements of Operations				
Revenue	<u>\$ 2,070</u>	<u>\$ 2,261</u>	<u>\$ 6,481</u>	<u>\$ 4,908</u>
Operating expenses	1,185	941	3,639	2,032
General and administrative expenses	65	90	256	175
Depreciation and amortization expense	1,330	1,159	3,876	2,147
Interest expense	1,056	819	3,959	1,544
Total expenses	<u>3,636</u>	<u>3,009</u>	<u>11,730</u>	<u>5,898</u>
Net loss	<u>\$ (1,566)</u>	<u>\$ (748)</u>	<u>\$ (5,249)</u>	<u>\$ (990)</u>

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(*unaudited*)

Note 6– Commitments

The Company has outstanding commitments for construction costs and tenant allowances on leases signed (which amounts become payable when the spaces are delivered to the tenants) at September 30, 2018 in the amount of \$93,000 and \$929,000, respectively, which are not reflected on the condensed consolidated balance sheet as of September 30, 2018. These amounts include the commitments for the pre-development projects (see Note 3). These capital expenditures are expected to be paid during 2018 and 2019, and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

Note 7– Mortgages and Other Debt

Total secured indebtedness was \$63.0 million and \$64.5 million at September 30, 2018 and December 31, 2017, respectively. Cash paid for interest for each of the nine months ended September 30, 2018 and 2017 was \$2.3 million. The mortgages and other debt is presented net of debt issuance cost on the condensed consolidated balance sheet of \$615,000 and \$713,000 at September 30, 2018 and December 31, 2017, respectively.

Note 8 - Related Party Transactions

Prior to October 1, 2016, affiliates of Howard Amster, owned the following interests: (1) 5.9% of the preferred and common interests in Horizon El Paso, LLC, (2) 7.88% of the preferred and common interests in Horizon OKC and (3) 43.2% of Horizon El Paso, LLC. Prior to October 1, 2016, Gary Skoien owned the following interests (excluding the Net Profits Interests discussed below): (1) 5.9% of Horizon El Paso, LLC; and (2) 0.95% of Horizon OKC. On October 1, 2016, Howard Amster, Gary Skoien, and certain affiliates of Howard Amster and Gary Skoien, exchanged their membership interest in Horizon El Paso and Horizon OKC for 3,520,000 shares of stock in Horizon Group Properties, Inc.

At September 30, 2018 and December 31, 2017, another affiliate of Howard Amster owned 49% of the interests in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; and Oshkosh, WI.

At September 30, 2018 and December 31, 2017, PL Skoien, owns (1) 12.6% of the interests in the entities that own the outlet center and related assets in Gettysburg, PA, (2) 46.4% of Horizon Atlanta, (3) 47.54% of Horizon Louisville and (4) 14.7% of Horizon El Portal, LLC.

Howard Amster is a financial consultant employed with McDonald Partners, LLC. The Company has an investment account with McDonald Partners, LLC.

At September 30, 2018 and December 31, 2017, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At September 30, 2018 and December 31, 2017, Andrew Pelmoter, an officer of the Company, owned 2.12% of Horizon Atlanta, and 4.31% of Horizon Louisville, in addition to the Net Profits Interests discussed below.

The Company has granted Common interests in Horizon El Paso, Horizon OKC, Horizon Atlanta, and Horizon Louisville (the “Net Profits Interests”) to certain officers of the Company. Holders of the Net Profits Interests are not entitled to any distributions until the holders of the preferred interests have received their capital and a 12% return thereon.

Net Profits Interests are recorded as a component of accounts payable and other accrued expenses on the accompanying balance sheet. The Net Profits Interests associated with Horizon Atlanta and Horizon Louisville continue to be adjusted associated with the Company’s fair value election on these investments discussed in Note 1. As of September 30, 2018 and December 31, 2017, the Net Profits Interest liability approximated \$7.9 million.

Net profits interests have been granted to officers of the Company as follows: (1) Horizon El Paso - 3.5%, to Andrew Pelmoter, (2) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumpitz, Pelmoter and James

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017
(unaudited)

Harris, respectively, (3) Horizon Louisville, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and Harris respectively, and (4) Horizon El Portal, - 1.52%, 1.52%, 1.22% and .61% to Messers Skoien, Pelmoter, Rumptz and Harris, respectively.

During 2016, the Company granted 20,000 common shares of Horizon Group Properties, Inc. to Gary Skoien. The shares will vest annually over a three-year period with 6,667 shares vesting in March 2018 and 2017. Compensation expense recognized during 2018 and 2017 related to these shares is immaterial.

During May of 2017, the Board issued a compensatory stock grant to Gary Skoien for 20,000 shares of the Company's stock.

During July of 2017, Gary Skoien obtained 100,000 shares of the Company's stock pursuant to the exercise of a stock option.