

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the nine months ended September 30, 2020 and 2019

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

Contents

Condensed Consolidated Balance Sheets at September 30, 2020 and December 31, 2019.....	3
Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2020 and September 30, 2019	4
Condensed Consolidated Statements of Operations for the Nine Months Ended September 30, 2020 and September 30, 2019	5
Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2020 and September 30, 2019	6
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2020 and September 30, 2019	7
Notes to Condensed Consolidated Financial Statements	9

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<i>(In thousands)</i>	
ASSETS		
Real estate		
Land	\$ 11,147	\$ 11,147
Buildings and improvements	45,274	47,758
Less accumulated depreciation	(13,950)	(12,644)
	42,471	46,261
Construction in progress	117	225
Land held for investment	29,960	29,944
Total net real estate	72,548	76,430
Investment in and advances to joint ventures	33,237	35,621
Investment in and advances to joint ventures, at fair value	50,650	50,649
Cash and cash equivalents	543	1,314
Restricted cash	2,363	2,177
Tenant and other accounts receivable, net	1,726	1,239
Deferred costs, (net of accumulated amortization of \$101 and \$121, respectively)	116	262
Other assets	1,374	1,022
Total assets	\$ 162,557	\$ 168,714
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage and other debt (net of debt issuance costs of \$651 and \$771, respectively)	\$ 62,881	\$ 61,569
Accounts payable and other accrued expenses	13,096	12,011
Prepaid rents and other tenant liabilities	411	503
Total liabilities	76,388	74,083
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, 8,742 shares issued and outstanding)	87	87
Additional paid-in capital	81,976	81,976
Accumulated deficit	(35,927)	(29,738)
Total stockholders' equity attributable to the controlling interest	46,136	52,325
Noncontrolling interests in consolidated subsidiaries	40,033	42,306
Total stockholders' equity	86,169	94,631
Total liabilities and stockholders' equity	\$ 162,557	\$ 168,714

See accompanying notes to condensed consolidated financial statements.

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

	<u>Three Months Ended</u> <u>September 30, 2020</u>	<u>Three Months Ended</u> <u>September 30, 2019</u>
<i>(In thousands)</i>		
REVENUE		
Base rent	\$ 1,442	\$ 1,832
Percentage rent	216	87
Expense recoveries	161	176
Management, development, and leasing fees	474	768
Other	43	224
Total revenue	<u>2,336</u>	<u>3,087</u>
EXPENSES		
Property operating	384	622
Real estate taxes	285	283
Other operating	566	214
Depreciation and amortization	905	925
General and administrative	1,438	1,644
Interest	743	779
Total expenses	<u>4,321</u>	<u>4,467</u>
OTHER INCOME AND EXPENSE		
Income (loss) from investment in joint ventures	(1,355)	217
Loss on sale of real estate	(3)	-
Total other income and expense	<u>(1,358)</u>	<u>217</u>
DISCONTINUED OPERATIONS		
Net income (loss) from operations of the discontinued component	<u>5</u>	<u>(52)</u>
Consolidated net loss before income tax	(3,338)	(1,215)
Income tax benefit	<u>-</u>	<u>231</u>
Consolidated net loss	(3,338)	(984)
Less net loss attributable to the noncontrolling interests	1,138	89
Net loss attributable to the Company	<u>\$ (2,200)</u>	<u>\$ (895)</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
<i>(In thousands)</i>		
REVENUE		
Base rent	\$ 4,601	\$ 5,310
Percentage rent	240	120
Expense recoveries	508	529
Management, development, and leasing fees	1,297	1,843
Other	75	304
Total revenue	6,721	8,106
EXPENSES		
Property operating	1,362	1,955
Real estate taxes	865	851
Other operating	1,066	617
Depreciation and amortization	2,711	2,820
General and administrative	3,849	4,477
Interest	2,248	2,283
Total expenses	12,101	13,003
OTHER INCOME AND EXPENSE		
Income (loss) from investment in joint ventures	(2,206)	1,099
Gain on sale of real estate	1,710	139
Total other income and expense	(496)	1,238
DISCONTINUED OPERATIONS		
Net loss from operations of the discontinued component, including loss on the disposal of \$1,279 and \$0, respectively	(1,571)	(550)
Consolidated net loss before income tax	(7,447)	(4,209)
Income tax benefit	221	231
Consolidated net loss	(7,226)	(3,978)
Less net loss (income) attributable to the noncontrolling interests	1,037	(310)
Net loss attributable to the Company	\$ (6,189)	\$ (4,288)

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Condensed Consolidated Statements of Stockholders' Equity
 Nine Months Ended September 30, 2020 and 2019
(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, 2020	\$ 87	\$ 81,976	\$ (29,738)	\$ 52,325	\$ 42,306	\$ 94,631
Net income (loss)	-	-	(6,189)	(6,189)	(1,037)	(7,226)
Contributions from noncontrolling interests	-	-	-	-	286	286
Distributions to noncontrolling interests	-	-	-	-	(1,522)	(1,522)
Balance, September 30, 2020	<u>\$ 87</u>	<u>\$ 81,976</u>	<u>\$ (35,927)</u>	<u>\$ 46,136</u>	<u>\$ 40,033</u>	<u>\$ 86,169</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, 2019	\$ 87	\$ 81,697	\$ (24,561)	\$ 57,223	\$ 41,952	\$ 99,175
Net loss	-	-	(4,288)	(4,288)	310	(3,978)
Unit retirement	-	-	-	-	(18)	(18)
Contributions from noncontrolling interests	-	-	-	-	1,869	1,869
Distributions to noncontrolling interests	-	-	-	-	(1,190)	(1,190)
Balance, September 30, 2019	<u>\$ 87</u>	<u>\$ 81,697</u>	<u>\$ (28,849)</u>	<u>\$ 52,935</u>	<u>\$ 42,923</u>	<u>\$ 95,858</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, 2020	Nine Months Ended September 30, 2019
Cash flows provided by (used in) operating activities:	<i>(In thousands)</i>	
Net loss attributable to the Company	\$ (6,189)	\$ (4,288)
Adjustments to reconcile net loss attributable to the Company to net cash provided by (used in) operating activities:		
Operating distributions from joint ventures	987	3,134
Net income (loss) attributable to the noncontrolling interests	(1,037)	310
(Income) loss from investment in joint ventures	2,206	(1,099)
Gain from sale of real estate	(1,710)	(139)
Depreciation	2,811	3,163
Amortization	31	19
Interest expense from deferred finance costs	128	92
Changes in assets and liabilities:		
Tenant and other accounts receivable - net	(183)	214
Deferred costs, net, and other assets	(220)	(88)
Accounts payable and other accrued liabilities	1,085	(597)
Prepaid rents and other tenant liabilities	(92)	(157)
Net cash provided by (used in) operating activities	(2,183)	564
Cash flows provided by (used in) investing activities:		
Investment in future developments	(17)	(20)
Investment in joint ventures	(730)	(4,353)
Net proceeds from sale of real estate	2,553	725
Distributions from joint ventures, return of capital	266	495
Contributions to joint ventures	(346)	-
Expenditures for real estate	228	(916)
Net cash provided by (used in) investing activities	1,954	(4,069)
Cash flows provided by (used in) financing activities:		
Distributions to noncontrolling interests	(1,522)	(1,190)
Contributions from noncontrolling interests	286	1,869
Retirement of noncontrolling interests	-	(18)
Net proceeds from borrowing	1,449	3,000
Principal payments on mortgages and other debt	(569)	(1,698)
Net cash provided by (used in) financing activities	(356)	1,963
Net decrease in cash, cash equivalents, and restricted cash	(585)	(1,542)
Cash, cash equivalents, and restricted cash:		
Beginning of period	3,491	4,149
End of period	\$ 2,906	\$ 2,607

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, 2020</u>	<u>Nine Months Ended</u> <u>September 30, 2019</u>
<i>(In thousands)</i>		
Reconciliation from consolidated statements of cash flows to consolidated balance sheets:		
Cash and cash equivalents	\$ 543	\$ 616
Restricted cash	2,363	1,991
Cash, cash equivalents, and restricted cash, End of period	<u>\$ 2,906</u>	<u>\$ 2,607</u>
 Supplemental information:		
Noncash activity related to the disposal of fully depreciated or amortized assets:		
Building and improvements	\$ 152	\$ 61
Deferred costs	2	17
	<u>\$ 154</u>	<u>\$ 78</u>
 Noncash activity to related party note receivable	 <u>\$ (304)</u>	 <u>\$ -</u>
 Noncash activity to related party note payable	 <u>\$ 304</u>	 <u>\$ -</u>

See accompanying notes to condensed consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(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, 2020 and December 31, 2019, 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 inter-company 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, 2020 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, 2019.

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.

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 have been eliminated in consolidation.

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 no longer deemed probable and costs are deemed to be non-recoverable, the applicable costs

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(*unaudited*)

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

At September 30, 2020 and December 31, 2019, predevelopment costs classified as Other Assets included projects in Cleveland, OH totaled \$664,000 and \$647,000, respectively.

Revenue Recognition

Revenue from Leasing Arrangements

Company's revenues primarily result from revenue from leasing arrangements that fall under Topic 840, *Leases*. Leases with tenants are accounted for as operating leases. Lease revenues included minimum rent, percentage rent, other rents and reimbursements from tenants for real estate taxes, insurance, CAM and other operating expenses as provided in these lease agreements. 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.

Management, Development and Leasing Fees

The company earns revenue from contracts with third parties and unconsolidated affiliates for property management, leasing, development and other services. These contracts are accounted for on a month-to-month basis. Management fees are charged as a percentage of revenues and recognized as revenue over time as services are provided. Leasing fees are charged for newly executed leases and lease renewals and are recognized as revenue upon lease execution, when the performance obligation is completed. Development fees are set as a fixed rate in a separate agreement.

Development and leasing fees received from an unconsolidated affiliate are recognized as revenue only to the extent of the third-party partner's ownership interest. The Company's share of such fees are recorded as a reduction to the Company's investment in the unconsolidated affiliate. Fees received from consolidated joint ventures are eliminated in consolidation.

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, 2020 and December 31, 2019 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, 2020 and 2019, 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.

The Company elected the fair value option for its investment in Horizon Atlanta and Horizon Louisville. Due to the

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

nature of these investments, 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 23, 2020, the date the condensed consolidated financial statements were available to be issued.

Note 3 – Investment in Real Estate

The following table 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, 2020.

<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	\$ 8,167	51.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	110,510	5,522	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	25,772	51.0%
Village Green Center	Huntley, IL	Retail	22,204	2,967	100.0%
Corporate Assets	Chicago, IL	Various	<u>N/A</u>	<u>43</u>	100.0%
	Total		<u>577,886</u>	<u>\$42,471</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	60.8%
Ridgewalk Land	Woodstock, GA	Land	84	7,363	51.0%
Land Held for Investment	Huntley, IL	Land	<u>355</u>	<u>20,441</u>	100.0%
	Total		<u>447</u>	<u>\$ 29,960</u>	

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.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(*unaudited*)

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, 2020. 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 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	428,060	30.78%
The Outlet Shoppes at Laredo	Laredo, TX	Outlet Retail	<u>357,866</u>	21.30%
Total			<u>1,882,877</u>	

El Paso Entities

During 2012, the Company sold a portion of its interest in El Paso Outlet Holdings, LLC ("El Paso Holding") to an affiliate of CBL & Associates Properties, Inc. ("CBL") for the outlet shopping mall in El Paso, Texas. El Paso Holding owns an entity that owns the outlet shopping center in El Paso, TX ("the El Paso Center"). During 2014, additional retail space owned by El Paso Outlet Center II Expansion, LLC, was developed at the El Paso Center. El Paso Outlet Center II Expansion is 100% owned by El Paso Outlet Center II, LLC ("El Paso II"). At June 30, 2020 and December 31, 2019, El Paso Holding was owned 50% by CBL and 25% by Horizon El Paso, LLC ("Horizon El Paso"), 17.625% by Pleasant Lake Apts., LP ("PLA"), an entity owned by Howard Amster, majority shareholder and director of the Company, and 7.375% by Pleasant Lake Skoien Investments, LLC ("PL Skoien"), an entity owner by Howard Amster and Gary Skoien, the Chairman of the Board, Chief Executive Officer ("CEO"), President, and a shareholder of the Company.

On September 10, 2018, El Paso Holdings and El Paso II refinanced existing debt from Phase I and Phase II of the shopping center with Deutsche Bank in the amount of \$75 million. In conjunction with the refinance, El Paso Holdings and El Paso II contributed its interest in Phase I and Phase II to El Paso Outlet Center CMBS, LLC ("El Paso CMBS"). El Paso CMBS is owned by an entity that is owned by El Paso Holdings. Phase I and Phase II of the shopping center secures the loan. The annual interest rate is 5.103%. Payments are \$407,350 per month, based on a 30-year amortization. The loan matures on October 6, 2028. The principal balance at September 30, 2020 and December 31, 2019, was \$72.9 million and \$73.7 million, respectively.

El Paso Outlet Outparcels, LLC owns several outparcels (the "Outparcels"). At September 30, 2020 and December 31, 2019, Outparcels was owned 50% by Horizon El Paso, 33.3333% by CBL, 11.75% by PLA, and 4.9167% by PL Skoien.

El Paso Outlet Outparcels II, LLC, formed in 2019, owns ancillary land adjacent to the shopping center (the "Outparcels II"). At September 30, 2020 and December 31, 2019, Outparcels II was owned 50% by CBL and 50% by Horizon El Paso.

The Company received management, leasing and similar fees from El Paso Center that totaled \$159,000 and \$253,000 during the three months ended September 30, 2020 and 2019, respectively, and \$435,000 and \$617,000 during the nine months ended September 30, 2020 and 2019, respectively.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

Summary financial information (stated at 100%) for the El Paso entities as of September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and 2019 are as follows (in thousands):

	As of September 30, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 84,239	\$ 86,659
Cash and cash equivalents	1,240	973
Restricted cash	2,260	2,573
Other assets	2,999	2,780
Total assets	<u>\$ 90,738</u>	<u>\$ 92,985</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 72,868	\$ 73,727
Other liabilities	3,075	3,767
Members' equity	14,795	15,491
Total liabilities and members' equity	<u>\$ 90,738</u>	<u>\$ 92,985</u>

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Statements of Operations				
Revenue	<u>\$ 3,163</u>	<u>\$ 3,834</u>	<u>\$ 10,292</u>	<u>\$ 11,271</u>
Operating expenses	1,652	1,596	4,691	4,395
General and administrative expenses	215	232	549	681
Depreciation and amortization expense	1,039	999	3,098	3,116
Interest expense	955	978	2,870	2,922
Total expenses	<u>3,861</u>	<u>3,805</u>	<u>11,208</u>	<u>11,114</u>
Loss on sale of land	-	-	(1)	-
Net income (loss)	<u>\$ (698)</u>	<u>\$ 29</u>	<u>\$ (917)</u>	<u>\$ 157</u>

Gettysburg Entities

During 2012, an entity owned by an affiliate of CBL and an affiliate of Howard Amster and Gary Skoien converted a mezzanine loan into equity ownership in Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the "Gettysburg entities"). At September 30, 2020 and December 31, 2019, the Gettysburg entities are owned 50% by CBL, 29.8% by PL Skoien, 19.1% by the Company, and 1.1% by other entities. 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 members of the Gettysburg entities accrue a 10% preferred return on capital invested. Cash distributions go first to CBL and PL Skoien, then to the Company and Tom Berlin.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

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 \$36.8 and \$37.1 million at September 30, 2020 and December 31, 2019, respectively.

The Company earned management, leasing and similar fees from Gettysburg entities that totaled \$60,000 and \$43,000 during the three months ended September 30, 2020 and 2019, respectively, and \$122,000 and \$167,000 during the nine months ended September 30, 2020 and 2019, respectively.

Summary financial information (stated at 100%) of the Gettysburg entities as of September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and 2019 is as follows (in thousands):

	As of September 30, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 38,658	\$ 39,644
Cash and cash equivalents	310	932
Restricted cash	496	799
Other assets	1,193	1,175
Total assets	<u>\$ 40,657</u>	<u>\$ 42,550</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 36,818	\$ 37,140
Other liabilities	900	1,010
Members' equity	2,939	4,400
Total liabilities and members' equity	<u>\$ 40,657</u>	<u>\$ 42,550</u>

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Statements of Operations				
Revenue	<u>\$ 1,173</u>	<u>\$ 1,311</u>	<u>\$ 3,701</u>	<u>\$ 4,994</u>
Operating expenses	718	544	2,025	1,890
General and administrative expenses	72	83	185	250
Depreciation and amortization expense	388	391	1,149	1,238
Interest expense	465	457	1,366	1,373
Total expenses	<u>1,643</u>	<u>1,475</u>	<u>4,725</u>	<u>4,751</u>
Gain on sale of land	-	-	-	5
Net income (loss)	<u>\$ (470)</u>	<u>\$ (164)</u>	<u>\$ (1,024)</u>	<u>\$ 248</u>

Atlanta Entities

During 2012, the Company entered into a joint venture (the "Atlanta JV") with an affiliate of CBL to develop The Outlet Shoppes at Atlanta in Woodstock, Georgia. At September 30, 2020 and December 31, 2019, the Atlanta

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

JV was owned 50% by CBL, 35% by Horizon Atlanta Outlet Shoppes, LLC (“Horizon Atlanta”), 7.611% by PLA, and 7.389% by PL Skoien. At September 30, 2020 and December 31, 2019, 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 Company is responsible for the leasing and management of the center.

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 and had a balance of \$70.5 million and \$71.7 million at September 30, 2020 and December 31, 2019, 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 matured on February 28, 2020, extended from December 19, 2019. On February 6, 2020, this loan was refinanced with Cadence Bank, N.A. The loan carries an interest rate of LIBOR plus 2.5%, payments based on a 25-year amortization and matures on November 5, 2023. The loan balance was \$4.6 million and \$4.4 million at September 30, 2020 and December 31, 2019, respectively.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled \$108,000 and \$142,000 for the three months ended September 30, 2020 and 2019, respectively, and \$333,000 and \$374,000 for the nine months ended September 30, 2020 and 2019, respectively.

Summary financial information (stated at 100%) of the Atlanta entities as of September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and 2019 is as follows (in thousands):

	As of September 30, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 45,911	\$ 48,421
Cash and cash equivalents	1,911	1,317
Restricted cash	685	424
Other assets	3,802	3,679
Total assets	<u>\$ 52,309</u>	<u>\$ 53,841</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 75,118	\$ 76,135
Other liabilities	1,732	995
Members' deficit	(24,541)	(23,289)
Total liabilities and members' deficit	<u>\$ 52,309</u>	<u>\$ 53,841</u>

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Statements of Operations				
Revenue	\$ 2,804	\$ 3,139	\$ 9,180	\$ 10,013
Operating expenses	1,114	530	3,193	2,273
General and administrative expenses	151	144	350	393
Depreciation and amortization expense	1,019	962	3,284	2,933
Interest expense	930	982	2,833	2,941
Total expenses	3,214	2,618	9,660	8,540
Loss on sale of land	(1)	-	(1)	2
Net income (loss)	\$ (411)	\$ 521	\$ (481)	\$ 1,475

Bluegrass Entities

During 2013, the Company entered into a joint venture (the “Louisville JV”) with an affiliate of CBL to develop The Outlet Shoppes of the Bluegrass in Louisville, Kentucky. At September 30, 2020 and December 31, 2019, the Louisville JV was owned 65% by CBL and 35% by Horizon Louisville Outlets, LLC (“Horizon Louisville”). At September 30, 2020 and December 31, 2019, 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.

In May of 2013, and again in December of 2014, Horizon Louisville met certain return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL; therefore, the Company’s share of future distributions from the Louisville JV increased from 35% to 50%. 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 phase I of The Outlet Shoppes of the Bluegrass. The loan balance was \$68.9 million and \$70.2 million at September 30, 2020 and December 31, 2019, respectively.

During 2015, the Louisville JV established the 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 interest rate of LIBOR plus 2.35%. On April 20, 2020, the loan was amended in response to the COVID-19 outbreak to include an interest-only period from April 1, 2020 through June 1, 2020, with principal installments deferred until the maturity date. On July 15, 2020, the loan was amended to extend the maturity date to October 15, 2020. On October 8, 2020, the loan was amended again to extend the maturity date to October 15, 2021. The loan balance was \$9.1 million and \$9.2 million, at September 30, 2020 and December 31, 2019, respectively.

The Company received management, leasing and similar fees from the Louisville JV that totaled \$93,000 and \$236,000 during the three months ended September 30, 2020 and 2019, respectively, and \$254,000 and \$473,000 during the nine months ended September 30, 2020 and 2019, respectively.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

Summary financial information (stated at 100%) of the Louisville entities as of September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and 2019 is as follows (in thousands):

	As of September 30, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 53,824	\$ 57,647
Cash and cash equivalents	1,506	1,376
Restricted cash	1,620	809
Other assets	4,268	3,904
Total assets	<u>\$ 61,218</u>	<u>\$ 63,736</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 78,033	\$ 79,390
Other liabilities	1,330	940
Members' deficit	(18,145)	(16,594)
Total liabilities and members' deficit	<u>\$ 61,218</u>	<u>\$ 63,736</u>

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Statements of Operations				
Revenue	<u>\$ 2,774</u>	<u>\$ 3,284</u>	<u>\$ 9,240</u>	<u>\$ 9,742</u>
Operating expenses	1,007	781	2,954	2,331
General and administrative expenses	198	144	400	407
Depreciation and amortization expense	2,049	1,288	4,443	4,414
Interest expense	802	876	2,476	2,653
Total expenses	<u>4,056</u>	<u>3,089</u>	<u>10,273</u>	<u>9,805</u>
Loss on sale of land	-	-	-	(7)
Net income (loss)	<u>\$ (1,282)</u>	<u>\$ 195</u>	<u>\$ (1,033)</u>	<u>\$ (70)</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 develop an outlet shopping center in Laredo, Texas. At September 30, 2020 and December 31, 2019, Laredo JV is owned 65% by CBL and 35% by Horizon El Portal, LLC ("Horizon El Portal"). At September 30, 2020, and December 31, 2019, the Company owns 60.8% of Horizon El Portal. Lawrence Friedman is a Class B member and will participate in distributions after certain internal rate of return hurdles are met.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

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, subject to certain conditions. Interest accrues on the loan at LIBOR and 2.5% until the development reaches 90% occupancy, at which time the interest rate will drop to LIBOR plus 2.25%. Monthly principal payments of \$150,000 began on October 1, 2018. The loan contains certain provisions requiring principal pay-downs subject to certain conditions. In May of 2019, the loan was extended through May 2021. As a condition of the extension Horizon El Portal and its partner, CBL, made a \$10.8 million principal payment through capital contribution on the construction loan. Horizon El Portal's share of the payment was \$3.8 million. On April 20, 2020, the loan was amended in response to the COVID-19 outbreak to include an interest-only period from April 1, 2020 through June 1, 2020, with principal installments deferred until the maturity date. At September 30, 2020, and December 31, 2019, the loan balance was \$41.1 million and \$42.0 million, respectively.

The Company received management, leasing, and similar fees from the Laredo JV that totaled \$50,000 and \$105,000 for the three months ended September 30, 2020 and 2019, respectively, and \$142,000 and \$282,000 for the nine months ended September 30, 2020 and 2019, respectively.

Summary financial information (stated at 100%) of the Laredo entities as of September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and 2019 is as follows (in thousands):

	As of September 30, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 94,051	\$ 98,753
Cash and cash equivalents	1,153	386
Restricted cash	529	534
Other assets	3,225	3,938
Total assets	<u>\$ 98,958</u>	<u>\$ 103,611</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 41,050	\$ 41,950
Other liabilities	3,352	3,744
Members' equity	54,556	57,917
Total liabilities and members' deficit	<u>\$ 98,958</u>	<u>\$ 103,611</u>

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Statements of Operations				
Revenue	\$ 1,660	\$ 2,503	\$ 5,903	\$ 7,259
Operating expenses	1,064	1,283	3,145	3,589
General and administrative expenses	91	99	259	269
Depreciation and amortization expense	2,322	1,586	5,450	4,269
Interest expense	442	673	1,411	2,360
Total expenses	3,919	3,641	10,265	10,487
Net loss	\$ (2,259)	\$ (1,138)	\$ (4,362)	\$ (3,228)

Note 5– 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, 2020 in the amount of \$120,000 which are not reflected on the condensed consolidated balance sheet as of September 30, 2020. These amounts include the commitments for the pre-development projects (see Note 3). These capital expenditures are expected to be paid during 2020 and 2021, and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

Note 6– Mortgages and Other Debt

Total secured indebtedness was \$62.9 million and \$61.6 million at September 30, 2020 and December 31, 2019, respectively. Cash paid for interest for the nine months ended September 30, 2020 and 2019 was \$1.1 million and \$2.2 million, respectively.

The Company's ability to secure new loans is limited by the fact that most of the Company's real estate assets are currently pledged as collateral for its current loans. The Company will pay the scheduled principal amortization in the normal course of business during 2020.

In June 2020, due to the property not meeting its debt service obligations, The Outlet Shoppes at Fremont and the lender entered an Agreed Order appointing a receiver over the commercial shopping center property. The order was entered by the court on June 26, 2020.

In July 2020, due to the property not meeting its debt service obligations, The Outlet Shoppes at Burlington and the lender entered an Agreed Order appointing a receiver over the commercial shopping center property. The order was entered by the court on July 24, 2020.

In August 2020, due to the property not meeting its debt service obligations, The Outlet Shoppes at Oshkosh and the lender entered an Agreed Order appointing a receiver over the commercial shopping center property. The order was entered by the court on August 6, 2020.

Burlington, Fremont, and Oshkosh are secured by a mortgage to Starwood Mortgage Capital, LLC. The loan is non-recourse to the Company, other than with respect to environmental damages and certain prohibited actions. The Company believes its exposure is limited to the properties which are securing the loan.

On May 5, 2020, the Company received proceeds from US Bank of \$1.4 million as guaranteed by the Small Business Administration's Paycheck Protection Program. The Company secured these funds in order to help keep

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

their workforce employed during the COVID-19 crisis (see Note 8). The loan can be 100% forgiven as long as the Company meets specific criteria, as defined, for the specified period following receipt of the loan proceeds. This includes maintaining a certain level of employee headcount and compensation during that time period as well as demonstrating that the money was used for payroll costs, rent, mortgage interest, or utilities. If the Company does not apply for and receive loan forgiveness, the loan will be required to be repaid in monthly installments of \$75,525.62 plus interest at 1.00%, beginning in December 2020 through May 2022. Management expects the Company to meet a significant portion of the criteria for loan forgiveness.

Note 7 - Related Party Transactions

At September 30, 2020 and December 31, 2019, PLA owns (1) 49% of the interests in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; and Oshkosh, WI, (2) 17.625%, respectively of interest in El Paso Holding, (3) 11.75%, respectively of El Paso Outparcels, and (4) 7.611%, respectively of interest in Atlanta JV.

At September 30, 2020 and December 31, 2019, 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, (4) 14.7% of Horizon El Portal, LLC, (5) 7.375%, respectively of El Paso Holding, (6) 4.9167%, respectively of El Paso Outparcels, and (7) 7.389%, respectively of interest in Atlanta JV.

At September 30, 2020 and December 31, 2019, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At September 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, the Net Profits Interest liability approximated \$8.0 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 OKC - 2.5%, 2.5% and 3% to Gary Skoien, Tom Rumptz and Andrew Pelmoter, respectively; (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and James Harris, respectively, (4) Horizon Louisville, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and Harris, respectively, and (5) Horizon El Portal, - 1.52%, 1.52%, 1.22% and .61% to Messers Skoien, Pelmoter, Rumptz and Harris, respectively.

During 2019, PLA loaned the Company \$3.25 million. In conjunction with the loan the Company issued warrants to PLA up to 541,667 limited partnership units or shares. The warrants had a \$3.00 exercise price and expire on May 29, 2024.

Note 8 – COVID-19 Impact

Since being reported in December 2019, COVID-19 has spread globally, including to every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19.

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

Certain states and cities, including where we own properties and where our corporate headquarters is located, have also reacted by instituting quarantines, restrictions on travel, “shelter-in-place” rules, restrictions on types of business that may continue to operate, and/or restrictions on the types of construction projects that may continue. The Company cannot predict if additional states and cities will implement similar restrictions or when restrictions currently in place will be lifted. As a result, the COVID-19 pandemic is negatively impacting almost every industry directly or indirectly, including the retail industry in which the Company and our tenants operate.

A majority of our tenants have announced temporary closures or other limits on the operations of their stores and requested rent deferral or rent abatement during this pandemic or have failed to pay rent. In addition, state, local or industry-initiated efforts, such as tenant rent freezes, or governmental or court-imposed delays in the processing of landlord initiated commercial eviction and collection actions in various jurisdictions in light of the COVID-19 pandemic, may also affect our ability to collect rent or enforce remedies for the failure to pay rent. We believe our tenants do not have a contractual right to cease paying rent due to government-mandated closures and we intend to enforce our rights under our lease agreements. However, COVID-19 and the related governmental orders present fairly novel situations for which the ultimate legal outcome cannot be assured, and it is possible future governmental action could impact our rights under the lease agreements. The extent of tenant requests and actions, and the resulting impact to the Company’s results of operations and cash flows, is uncertain and cannot be predicted.

The extent to which the COVID-19 pandemic impacts our operations and those of our tenants will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others. Additional closures by our tenants of their stores and early terminations by our tenants of their leases could further reduce our cash flows.

Note 9 – Discontinued Operations

In May 2020, because of the COVID-19 pandemic impact, the Company discontinued its restaurant operation division. All restaurant locations have been closed, liquidated and assets disposed. The loss on the disposal of restaurant assets was \$1.3 million. Assets and liabilities to be disposed of comprised the following as of the date of disposal, May 1, 2020, and December 31, 2019.

	As of May 01, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 1,159	\$ 1,280
Cash and cash equivalents	72	297
Other assets	138	224
Total assets	<u>\$ 1,369</u>	<u>\$ 1,801</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 138	\$ 84
Other liabilities	108	165
Members' equity	1,123	1,552
Total liabilities and members' equity	<u>\$ 1,369</u>	<u>\$ 1,801</u>

HORIZON GROUP PROPERTIES, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended September 30, 2020 and 2019
(unaudited)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Reconciliation to amount of loss on financials				
Restaurant revenue	\$ -	\$ 1,037	\$ 542	\$ 2,585
Other	9	-	113	-
Total revenue	<u>9</u>	<u>1,037</u>	<u>655</u>	<u>2,585</u>
Restaurant operating	-	1,009	807	2,768
General and administrative expenses	2	-	5	-
Depreciation and amortization expense	-	78	131	362
Interest expense	2	2	4	5
Total expenses	<u>4</u>	<u>1,089</u>	<u>947</u>	<u>3,135</u>
Loss from the disposal of discontinued operations	<u>-</u>	<u>-</u>	<u>(1,279)</u>	<u>-</u>
Total income (loss) of discontinued operations	<u>\$ 5</u>	<u>\$ (52)</u>	<u>\$ (1,571)</u>	<u>\$ (550)</u>