

Consolidated Financial Statements

Horizon Group Properties, Inc.

For the years ended December 31, 2020 and 2019

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Independent Auditors' Report

Board of Directors
Horizon Group Properties, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Horizon Group Properties, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Group Properties, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cohen & Company Ltd.

Akron, Ohio
April 22, 2021

COHEN & COMPANY, LTD.
800.229.1099 | 866.818.4535 FAX | cohencpa.com

HORIZON GROUP PROPERTIES, INC.
Consolidated Balance Sheets

	December 31, 2020	December 31, 2019
	<i>(In thousands)</i>	
ASSETS		
Real estate		
Land	\$ 11,147	\$ 11,147
Buildings and improvements	45,324	45,266
Less accumulated depreciation	(14,836)	(11,428)
	41,635	44,985
Construction in progress	76	221
Land held for investment	28,990	29,944
Total net real estate	70,701	75,150
Investment in and advances to joint ventures	15,661	35,621
Investment in and advances to joint ventures, at fair value	49,780	50,649
Cash and cash equivalents	1,566	1,017
Restricted cash	876	2,177
Tenant and other accounts receivable, net	1,436	1,234
Deferred costs, (net of accumulated amortization of \$105 and \$121, respectively)	129	138
Other assets	1,125	929
Assets from discontinued operations	-	1,799
Total assets	\$ 141,274	\$ 168,714
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage and other debt (net of unamortized debt issuance costs of \$599 and \$771, respectively)	\$ 62,194	\$ 61,487
Accounts payable and other accrued expenses	12,358	11,846
Prepaid rents and other tenant liabilities	606	503
Liabilities from discontinued operations	63	247
Total liabilities	75,221	74,083
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, 9,799 and 8,742 shares issued and outstanding, respectively)	98	87
Additional paid-in capital	79,295	81,976
Accumulated deficit	(48,883)	(29,738)
Total stockholders' equity attributable to the controlling interest	30,510	52,325
Noncontrolling interests in consolidated subsidiaries	35,543	42,306
Total stockholders' equity	66,053	94,631
Total liabilities and stockholders' equity	\$ 141,274	\$ 168,714

The accompanying notes are an integral part of these consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Operations

	Year Ended December 31, 2020	Year Ended December 31, 2019
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$ 5,593	\$ 7,161
Percentage rent	573	167
Expense recoveries	663	721
Management, development, and leasing fees	1,207	2,459
Other	110	1,152
Total revenue	8,146	11,660
EXPENSES		
Property operating	1,803	2,537
Real estate taxes	1,166	1,157
Other operating	369	979
Depreciation and amortization	3,633	3,741
Provision for impairment	1,100	-
General and administrative	4,970	5,907
Interest	2,993	3,084
Total expenses	16,034	17,405
OTHER INCOME AND EXPENSE		
Income (loss) from investment in joint ventures	(22,363)	1,672
Gain (loss) on sale of real estate	1,699	(576)
Total other income and expense	(20,664)	1,096
DISCONTINUED OPERATIONS		
Net loss from operations of the discontinued component, including loss on the disposal of \$1,216 and \$0, respectively	(1,597)	(689)
Consolidated net loss before income tax	(30,149)	(5,338)
Income tax benefit	221	231
Consolidated net loss	(29,928)	(5,107)
Less net loss (income) attributable to the noncontrolling interests	10,783	(70)
Net loss attributable to the Company	\$ (19,145)	\$ (5,177)

The accompanying notes are an integral part of these consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Stockholders' Equity
(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 loss	-	-	(19,145)	(19,145)	(10,783)	(29,928)
Transfer of noncontrolling interests (See Note 9)	11	(2,681)	-	(2,670)	5,270	2,600
Contributions from noncontrolling interests	-	-	-	-	1,267	1,267
Distributions to noncontrolling interests	-	-	-	-	(2,517)	(2,517)
Balance, December 31, 2020	<u>\$ 98</u>	<u>\$ 79,295</u>	<u>\$ (48,883)</u>	<u>\$ 30,510</u>	<u>\$ 35,543</u>	<u>\$ 66,053</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 income (loss)	-	-	(5,177)	(5,177)	70	(5,107)
Unit retirement	-	-	-	-	(26)	(26)
Stock warrants issued	-	279	-	279	-	279
Contributions from noncontrolling interests	-	-	-	-	2,239	2,239
Distributions to noncontrolling interests	-	-	-	-	(1,929)	(1,929)
Balance, December 31, 2019	<u>\$ 87</u>	<u>\$ 81,976</u>	<u>\$ (29,738)</u>	<u>\$ 52,325</u>	<u>\$ 42,306</u>	<u>\$ 94,631</u>

The accompanying notes are an integral part of these consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Cash Flows

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash flows provided by (used in) operating activities:	<i>(In thousands)</i>	
Net loss	\$ (29,928)	\$ (5,107)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Operating distributions from joint ventures	1,906	3,725
(Income) loss from investment in joint ventures	22,363	(1,672)
Loss (gain) from sale of real estate	(1,699)	576
Loss on disposal of discontinued operations	1,216	-
Depreciation	3,578	3,783
Amortization	44	56
Provision for impairment	1,100	-
Interest expense from deferred finance costs	164	158
Changes in assets and liabilities:		
Tenant and other accounts receivable, net	102	526
Deferred costs, net, and other assets	(214)	272
Accounts payable and other accrued expenses	512	(850)
Prepaid rents and other tenant liabilities	103	(221)
Assets and liabilities from discontinued operations	418	490
Net cash provided by (used in) operating activities	(335)	1,736
Cash flows provided by (used in) investing activities:		
Investment in future developments	(17)	(82)
Investment in joint ventures	(351)	(4,353)
Net proceeds from sale of real estate	2,036	3,726
Distributions from joint ventures, return of capital	500	695
Contributions to joint ventures	(989)	-
Expenditures for real estate	(566)	(1,902)
Net cash provided by (used in) investing activities	613	(1,916)
Cash flows used in financing activities:		
Distributions to noncontrolling interests	(2,517)	(1,929)
Contributions from noncontrolling interests	1,267	2,239
Retirement of noncontrolling interests	-	(26)
Net proceeds from borrowing	1,667	3,250
Principal payments on mortgages and other debt	(1,428)	(3,970)
Principal payments on mortgages from discontinued operations	(19)	(35)
Net cash used in financing activities	(1,030)	(471)
Net decrease in cash, cash equivalents, and restricted cash	(752)	(651)
Cash, cash equivalents, and restricted cash:		
Beginning of year	3,194	3,845
End of year	\$ 2,442	\$ 3,194

The accompanying notes are an integral part of these consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Cash Flows, continued

	<u>Year Ended</u> <u>December 31, 2020</u>	<u>Year Ended</u> <u>December 31, 2019</u>
	<i>(In thousands)</i>	
Reconciliation from consolidated statements of cash flows to consolidated balance sheets:		
Cash and cash equivalents	\$ 1,566	\$ 1,017
Restricted cash	876	2,177
Cash, cash equivalents, and restricted cash, End of year	<u>\$ 2,442</u>	<u>\$ 3,194</u>
 Supplemental information:		
Noncash activity related to the disposal of fully depreciated or amortized assets:		
Building and improvements	\$ 154	\$ 83
Deferred costs	12	34
	<u>\$ 166</u>	<u>\$ 117</u>
 Noncash activity related to warrants issued in conjunction with debt instrument	<u>\$ -</u>	<u>\$ 279</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>
 Noncash activity related to the stock issued for the purchase of noncontrolling interest in consolidated entities and joint ventures:		
Noncontrolling interest in consolidated subsidiaries	\$ (5,270)	\$ -
Investment in joint ventures	2,600	-
Common shares	(11)	-
Additional paid-in capital	2,681	-
	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements.

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and Principles of Consolidation

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 Company conducts operations primarily through a subsidiary limited partnership, Horizon Group Properties, L.P. (“HGP LP”) of which HGPI is the sole general partner. As of December 31, 2020 and 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 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 that do not meet these criteria using the cost or equity methods. The entities referred to herein are consolidated subsidiaries of the Company excluding the entities discussed in Note 4; those entities are accounted for using the equity method of accounting.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from those estimates that were used, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic, and such differences may be material.

Investment in Real Estate

The Company allocates the purchase price of properties to net tangible and intangible assets acquired based on their fair values in accordance with the provisions of GAAP. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals obtained in connection with the acquisition or financing of the respective property and other market data. The Company also considers information obtained about each property from its pre-acquisition due diligence, marketing, and leasing activities, in estimating the fair value of the tangible and intangible assets acquired.

The Company allocates a portion of the purchase price to above-market and below-market lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between: (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management’s estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. In the case of below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The capitalized above/below-market lease values (included in Deferred Costs or Prepaid Rents and Other Tenant Liabilities on the consolidated balance sheets) are amortized as either a reduction of, or addition to, rental income over the remaining noncancelable terms of the respective leases. Should a tenant terminate its lease prior to its scheduled expiration, the unamortized portion of the related lease intangibles would be added to income or charged to expense, as applicable.

The Company allocates a portion of the purchase price to the value of leases acquired based on the difference between: (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. The Company utilizes independent appraisals or its internally developed estimates to determine the respective in-place lease values. The Company makes estimates of fair value using methods similar to those used by independent appraisers. Factors management considers in its analysis include an estimate of carrying costs

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

during the expected lease-up periods considering current market conditions and costs to execute similar leases including leasing commissions, legal and other related expenses.

The value of in-place leases (included in Buildings and Improvements on the consolidated balance sheets) is amortized over the remaining initial terms of the respective leases. Should a tenant terminate its lease prior to its scheduled expiration, the unamortized portion would be charged to expense.

Real Estate and Depreciation

Costs incurred for the acquisition, development, construction and improvement of properties, as well as significant renovations and betterments to the properties, are capitalized. Maintenance and repairs are charged to expense as incurred. Interest costs incurred with respect to qualified expenditures relating to the construction of assets are capitalized during the construction period.

Amounts included under Buildings and Improvements on the consolidated balance sheets include the following types of assets, which are depreciated on the straight-line method over estimated useful lives, which are:

Buildings and improvements	31.5 years
Tenant improvements / origination costs	10 years or lease term, if less
Furniture, fixtures, and equipment	3 – 7 years

In accordance with GAAP, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated over their expected holding periods are less than the carrying amounts of those assets. For assets held in the portfolio, impairment losses are measured as the difference between carrying value and fair value. For assets to be sold, impairment is measured as the difference between carrying value and fair value, less cost to dispose. Fair value is based upon estimated cash flows discounted at a risk-adjusted rate of interest, comparable or anticipated sales in the marketplace, or estimated replacement cost, as adjusted to consider the costs of retenanting and repositioning those properties which have significant vacancy issues, depending on the facts and circumstances of each property.

Impairment of Land

Due to the impact of the COVID-19 pandemic on our operating results and uncertainties associated with the recovery from the pandemic in future periods, we determined that it was appropriate to test long-lived assets during 2020 for impairment. During 2020, the Phase II land located in Laredo, Texas was deemed to be impaired and was written down to fair value. Fair value was determined based on a recent appraisal of the Outlet Shoppes at Laredo (see Note 4). The carrying value exceeded the fair value by \$1.1 million which was recorded as an impairment loss during the year ended December 31, 2020.

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

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

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Cash Equivalents

The Company considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company's cash is held in accounts with balances, which at times, exceed federally insured limits. The Company has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

Restricted Cash consists of amounts deposited in accounts with the Company's primary lenders in connection with certain loans and funds escrowed to be used for the development of the Ridgewalk property in Woodstock, GA (see Notes 4 & 7). At December 31, 2020 and 2019, the escrow accounts related to the Company's primary lenders included approximately \$176,000 and \$313,000 in capital improvement and tenant allowance reserves, respectively, \$144,000 and \$966,000 in real estate tax and insurance escrows, respectively, and approximately \$193,000 and \$428,000 for cash collateral accounts, respectively. At December 31, 2020 and 2019, the Huntley interest, infrastructure and expense escrow accounts totaled \$0 and \$43,000, respectively. At December 31, 2020 and 2019, the Ridgewalk development escrow totaled \$363,000 and \$427,000, respectively.

Tenant Accounts Receivable

Management regularly reviews accounts receivable and estimates the necessary amounts to be recorded as an allowance for uncollectability. These reserves are established on a tenant-specific basis and are based upon, among other factors, the period of time an amount is past due and the financial condition of the obligor. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance.

At December 31, 2020 and 2019, total tenant accounts receivable is reflected net of reserves of \$563,000 and \$472,000, respectively. The bad debt expense was \$99,000 and \$315,000 for the years ended December 31, 2020 and 2019, respectively. This charge is included in the line items entitled "Other operating" and "General and administrative" in the consolidated statements of operations.

Forgivable Loans

Absent specific guidance in GAAP, the Company accounts for forgivable loans as debt in accordance with ASC 470 and accrues interest in accordance with the interest method under ASC 835-30. Accordingly, proceeds from such loans are recorded as a liability until either the loan is in part or wholly forgiven and the debt has been legally released or the loan is paid off. Forgivable loans totaled approximately \$1.4 million as of December 31, 2020.

Deferred Costs

Deferred costs consist of fees and direct internal costs incurred to initiate and renew operating leases and are amortized over the life of the lease.

Revenue Recognition

Revenue from Leasing Arrangements

The 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. As a result of recording rental revenue on a straight-line basis, tenant accounts receivable include \$380,000 and \$355,000 as of December 31, 2020 and 2019, respectively, which is expected to be collected over the remaining lives of the 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.

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted on March 27, 2020, and the Consolidated Appropriations Act, 2021 (CAA Act) was enacted on December 27, 2020, and includes several provisions related to income taxes. The Company has evaluated the impact of the legislation and determined that while there is an impact on the timing of cash flow, there is no material impact to the Company's financial results, other than allowing the expenses funded by the loan received under the Paycheck Protection Program to be deductible.

As of December 31, 2020 and 2019, and for the years 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 consolidated statements of operations. During 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 can significantly influence the operations of the underlying investment, but does not have the ability to 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 investments in Horizon Atlanta and Horizon Louisville (see Note 4). Due to the 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 statements 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.

The Company evaluates the recoverability of long-lived assets, including investments in joint ventures, whenever events or changes in circumstances may indicate that the carrying value of the assets are not recoverable or are less than fair value. Due to the impact of the COVID-19 pandemic on our operating results and uncertainties associated with the recovery from the pandemic in future periods, we determined that it was appropriate to test long-lived assets, for impairment, as of December 31, 2020. As a result of the test performed, impairment charges of \$18.4 million were recorded related to the investment in Laredo (See Note 4).

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Subsequent Events

Management has evaluated subsequent events through April 22, 2021, the date the consolidated financial statements were available to be issued.

Note 3 - Investment in Real Estate and Restaurants

The following table contains information on the operating properties 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 December 31, 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	\$ 8,000	97.06%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	110,510	5,432	97.06%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	25,240	97.06%
Village Green Center	Huntley, IL	Retail	22,204	2,925	100.00%
Corporate Assets	Chicago, IL	Various	<u>N/A</u>	<u>38</u>	100.00%
	Total		<u>577,886</u>	<u>\$41,635</u>	
			<u>Acres</u>		
Laredo Phase II Land	Laredo, TX	Land	2	\$ 900	60.80%
Land held for Investment	Fruitport, MI	Land	6	156	100.00%
Ridgewalk Land	Woodstock, GA	Land	84	7,479	100.00%
Land Held for Investment	Huntley, IL	Land	<u>355</u>	<u>20,455</u>	100.00%
	Total		<u>447</u>	<u>\$ 28,990</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 consolidated statements of operations and such parties' portion of the net equity in such subsidiaries is reported on the Company's consolidated balance sheets as Noncontrolling interests in consolidated subsidiaries.

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 (see Note 7). The loan is non-recourse to the Company, other than with respect to environmental damages and certain prohibited actions. The Company expects to complete the deed-in-lieu of foreclosure transaction with the properties in the second quarter of 2021. The Company believes its exposure is limited to the properties which are securing the loan.

HORIZON GROUP PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 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	30.31%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail	249,937	48.90%
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 Holding, LLC ("El Paso Holding") to an affiliate of CBL & Associates Properties, Inc. ("CBL"). 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 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 owned by Howard Amster and Gary Skoien, the Chairman of the Board, Chief Executive Officer ("CEO"), President, and a shareholder of the Company. During 2020, the Company acquired 100% of PLS-BFO, LLC ("PLS-BFO"), which owns a 5.9% of PL Skoien's interest in El Paso Holding (see Note 9). At December 31, 2020, El Paso Holding was owned 50% by CBL, 25% by Horizon El Paso, 17.625% by PLA, 5.9% by the Company and 1.495% by PL Skoien.

On September 10, 2018, El Paso Holding and El Paso II refinanced Phase I and Phase II of the shopping center with the proceeds of a \$75 million loan originated by Deutsche Bank. In conjunction with the refinancing, each of El Paso Holding and El Paso II contributed its interest in Phase I and Phase II, respectively, to El Paso Outlet Center CMBS, LLC ("El Paso CMBS"). El Paso CMBS is owned by an entity that is owned by El Paso Holding. Phase I and Phase II of the shopping center secure 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 December 31, 2020 and 2019, was \$72.6 million and \$73.7 million, respectively. On November 2, 2020, an affiliate of CBL, the guarantor entity of the loan, filed chapter eleven bankruptcy, which is a technical event of default under the loan agreement. The lender has all the default remedies specified in the loan documents, including the ability to foreclose on the property. CBL is expected to emerge from bankruptcy which would essentially cure the default. As a result of the event of default, default interest has been accrued but not paid since the date of the bankruptcy filing. At December 31, 2020, El Paso CMBS has accrued default interest of \$595,000.

El Paso Outlet Outparcels, LLC owns several outparcels (the "Outparcels") adjacent to The Outlet Shoppes at El Paso. At December 31, 2020 and 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 December 31, 2020 and 2019, Outparcels II was owned 50% by CBL and 50% by Horizon El Paso.

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At December 31, 2020 and 2019, the Company owned 97.4% of the preferred interests and 92.8% of the common interest in Horizon El Paso.

As of December 31, 2020 and 2019, the Company's investment in the entities that own The Outlet Shoppes at El Paso, Outparcels and Outparcels II exceeded its proportional share of the underlying equity as reflected in the entities financial statements by approximately \$9.6 million and \$10.2 million, respectively. Such difference is primarily related to the increased value in real estate and is being amortized over a period of 5 to 30 years.

The Company received management, leasing and similar fees from El Paso Center that totaled \$601,000 and \$822,000 million during the years ended December 31, 2020 and 2019, respectively.

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

	As of December 31, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 83,240	\$ 86,659
Cash and cash equivalents	1,662	973
Restricted cash	2,934	2,573
Other assets	2,081	2,780
Total assets	<u>\$ 89,917</u>	<u>\$ 92,985</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 72,575	\$ 73,727
Other liabilities	4,257	3,767
Members' equity	13,085	15,491
Total liabilities and members' equity	<u>\$ 89,917</u>	<u>\$ 92,985</u>
	Year Ended December 31, 2020	Year Ended December 31, 2019
Statements of Operations		
Revenue	<u>\$ 13,423</u>	<u>\$ 15,410</u>
Operating expenses	5,786	6,025
General and administrative expenses	802	927
Depreciation and amortization expense	4,242	4,123
Interest expense	4,418	3,878
Total expenses	<u>15,248</u>	<u>14,953</u>
Gain on sale of assets	1	-
Net income (loss)	<u>\$ (1,824)</u>	<u>\$ 457</u>

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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 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. During 2020, PL-Skoien contributed its 29.8% interest in the Gettysburg entities to PLS-BFO (See Note 9). At December 31, 2020, the Gettysburg entities are owned 50% by CBL, 48.9% by the Company, and 1.1% by another 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. Certain members of the Gettysburg entities accrue a 10% preferred return on capital invested.

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. On August 17, 2020, in response to the COVID-19 outbreak, the lender consented to a deferred principal period commencing with the July 2020 payment date through the December 2020 payment date, with the deferred principal to be repaid during 2021. The mortgage balance was \$36.7 and \$37.1 million at December 31, 2020 and 2019, respectively. On November 2, 2020, an affiliate of CBL, one of the guarantors of the loan, filed chapter eleven bankruptcy, which is a technical event of default under the loan agreement. The Company is also a guarantor of the loan. The lender has all the default remedies specified in the loan documents, including the ability to foreclose on the property. CBL is expected to emerge from bankruptcy which would essentially cure the default. Default interest has been accrued but not paid since the date of the bankruptcy filing. At December 31, 2020, the Gettysburg entities have accrued default interest of \$306,000.

During 2020, the property failed to meet the Debt Service Coverage Ratio which triggers a Sweep Event Period. The Lender has provided notice of the commencement of a Sweep Event Period. During a Sweep Event Period, the borrower is required to establish a Clearing Account under the control of the Lender.

The Company earned management, leasing, and similar fees from the Gettysburg Entities that totaled \$177,000 and \$243,000 during the years ended December 31, 2020 and 2019, respectively. During 2020, the Company evaluated the collectability of accrued management fees and determined these were not collectible as of December 31, 2020. As a result, the Company wrote off the accrued management fees of \$609,000 and will no longer accrue those fees going forward.

Summary financial information (stated at 100%) of the Gettysburg entities as of December 31, 2020 and 2019, and for the years ended December 31, 2020 and 2019, are as follows (in thousands):

	As of December 31, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 38,300	\$ 39,644
Cash and cash equivalents	442	932
Restricted cash	847	799
Other assets	1,205	1,175
Total assets	<u>\$ 40,794</u>	<u>\$ 42,550</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 36,774	\$ 37,140
Other liabilities	1,426	1,010
Members' equity	2,594	4,400
Total liabilities and members' equity	<u>\$ 40,794</u>	<u>\$ 42,550</u>

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	Year Ended December 31, 2020	Year Ended December 31, 2019
Statements of Operations		
Revenue	\$ 4,891	\$ 6,463
Operating expenses	2,350	2,633
General and administrative expenses	267	341
Depreciation and amortization expense	1,493	1,625
Interest expense	2,148	1,827
Total expenses	6,258	6,426
Gain on sale of assets	-	5
Net income (loss)	\$ (1,367)	\$ 42

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 December 31, 2020 and 2019, the Atlanta 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 December 31, 2020 and 2019, the Company owned 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 \$70.1 million and \$71.7 million at December 31, 2020 and 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 the proceeds of a \$4,680,000 loan from 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. On April 6, 2020, the loan was amended in response to the COVID-19 outbreak to include a deferred payment period including principal and interest from April 10, 2020 through June 10, 2020, with deferred interest amounts added to the outstanding principal balance of the loan and due at maturity. The loan balance was \$4.6 million and \$4.4 million at December 31, 2020 and 2019, respectively.

On November 2, 2020, an affiliate of CBL, the guarantor entity of the loans, filed chapter eleven bankruptcy, which is a technical default under the loan agreements. The lender has all the default remedies specified in the loan documents, including the ability to foreclose on the property. CBL is expected to emerge from bankruptcy which would essentially cure the default. Default interest has been accrued but not paid since the date of the bankruptcy filing. At December 31, 2020, the Atlanta entities have accrued default interest of \$383,000.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled \$465,000 and \$493,000 for the years ended December 31, 2020 and 2019, respectively.

Summary financial information (stated at 100%) of the Atlanta entities as of December 31, 2020 and 2019, for the years ended December 31, 2020, and 2019, are as follows (in thousands):

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	As of December 31, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 45,280	\$ 48,421
Cash and cash equivalents	1,008	1,317
Restricted cash	552	424
Other assets	3,290	3,679
Total assets	\$ 50,130	\$ 53,841
Liabilities and members' deficit		
Mortgages and other debt	\$ 74,675	\$ 76,135
Other liabilities	1,299	995
Members' deficit	(25,844)	(23,289)
Total liabilities and members' deficit	\$ 50,130	\$ 53,841

	Year Ended December 31, 2020	Year Ended December 31, 2019
Statements of Operations		
Revenue	\$ 12,017	\$ 14,302
Operating expenses	3,977	3,858
General and administrative expenses	505	541
Depreciation and amortization expense	4,243	3,891
Interest expense	4,149	3,909
Total expenses	12,874	12,199
Gain (loss) on sale of assets	(1)	2
Net income (loss)	\$ (858)	\$ 2,105

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 December 31, 2020 and 2019, the Louisville JV was owned 65% by CBL and 35% by Horizon Louisville Outlets, LLC ("Horizon Louisville"). At December 31, 2020 and 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 \$68.5 million and \$70.2 million at December 31, 2020 and 2019, respectively.

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During 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 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 \$8.9 million and \$9.2 million, at December 31, 2020 and 2019, respectively.

On November 2, 2020, an affiliate of CBL, the guarantor entity of the loans, filed chapter eleven bankruptcy, which is a technical default under the loan agreements. The lenders have all the default remedies specified in the loan documents, including the ability to foreclose on the property. CBL is expected to emerge from bankruptcy which would essentially cure the defaults. Default interest has been accrued but not paid since the date of the bankruptcy filing. At December 31, 2020, the Bluegrass entities have accrued default interest of \$449,000.

The Company received development, management, leasing, and similar fees from the Louisville JV that totaled \$356,000 and \$592,000 for the years ended December 31, 2020 and 2019, respectively.

Summary financial information (stated at 100%) of the Bluegrass entities as of December 31, 2020 and 2019, and for the years ended December 31, 2020 and 2019, is as follows (in thousands):

	As of December 31, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 52,976	\$ 57,647
Cash and cash equivalents	1,427	1,376
Restricted cash	1,169	809
Other assets	3,559	3,904
Total assets	<u>\$ 59,131</u>	<u>\$ 63,736</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 77,362	\$ 79,390
Other liabilities	1,285	940
Members' deficit	(19,516)	(16,594)
Total liabilities and members' deficit	<u>\$ 59,131</u>	<u>\$ 63,736</u>

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	Year Ended December 31, 2020	Year Ended December 31, 2019
Statements of Operations		
Revenue	\$ 11,873	\$ 13,155
Operating expenses	3,486	3,356
General and administrative expenses	571	542
Depreciation and amortization expense	5,571	5,630
Interest expense	3,748	3,515
Total expenses	13,376	13,043
Loss on sale of assets	-	(7)
Net income (loss)	\$ (1,503)	\$ 105

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 December 31, 2020, and 2019, Laredo JV is owned 65% by CBL and 35% by Horizon El Portal, LLC (“Horizon El Portal”). At December 31, 2020 and 2019, the Company owns 75.5% and 60.8%, respectively of Horizon El Portal (see Note 9). Lawrence Friedman is a Class B member and is entitled to participate in distributions after certain internal rate of return hurdles are met.

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 December 31, 2020 and 2019, the loan balance was \$40.6 million and \$42.0 million, respectively.

On November 2, 2020, an affiliate of CBL, the guarantor of the loan filed chapter eleven bankruptcy, which is a technical event of default under the loan agreement. The lender has all the default remedies specified in the loan documents, including the ability to foreclose on the property. CBL is expected to emerge from bankruptcy which would essentially cure the default. Default interest has been accrued but not paid since the date of the bankruptcy filing. At December 31, 2020, the Laredo JV has accrued default interest of \$176,000.

During 2020, the Outlet Shoppes at Laredo was deemed to be impaired and was written down to the fair value. Fair value was determined based on a recent appraisal that valued the property at \$42.9 million. The carrying value exceed the fair value by \$52.6 million which was recorded as an impairment loss during the year ended December 31, 2020.

The Company received management, leasing development and similar fees from the Laredo JV that totaled \$202,000 and \$292,000 for the years ended December 31, 2020 and 2019, respectively.

Summary financial information (stated at 100%) of the Laredo JV as of December 31, 2020 and 2019, and for the years ended December 31, 2020 and 2019, is as follows (in thousands):

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	As of December 31, 2020	As of December 31, 2019
Assets		
Real estate - net	\$ 41,019	\$ 98,753
Cash and cash equivalents	24	386
Restricted cash	434	534
Other assets	2,951	3,938
Total assets	<u>\$ 44,428</u>	<u>\$ 103,611</u>

Liabilities and members' equity		
Mortgages and other debt	\$ 40,600	\$ 41,950
Other liabilities	3,356	3,744
Members' equity	472	57,917
Total liabilities and members' equity	<u>\$ 44,428</u>	<u>\$ 103,611</u>

	Year Ended December 31, 2020	Year Ended December 31, 2019
Statements of Operations		
Revenue	<u>\$ 7,637</u>	<u>\$ 9,386</u>
Operating expenses	4,219	4,202
General and administrative expenses	364	366
Depreciation and amortization expense	6,780	5,650
Provision for impairment	52,615	-
Interest expense	2,104	2,889
Total expenses	<u>66,082</u>	<u>13,107</u>
Gain on sale of assets	-	-
Net loss	<u>\$ (58,445)</u>	<u>\$ (3,721)</u>

Note 5 - Income Taxes

HGPI is taxable as a corporation under the provisions of Subchapter C of the Internal Revenue Code. The net provision for income taxes after the change in the valuation reserve for the years ended December 31, 2020 and 2019, consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Current Benefit		
Federal	\$(221)	\$(231)
State	-	-
Net Benefit	<u>\$(221)</u>	<u>\$(231)</u>

For federal income tax purposes, HGPI had net operating loss carryforwards ("NOLs") of approximately \$75.8 million and \$71.9 million at December 31, 2020 and 2019, respectively. Of the \$75.8 million available at December 31, 2020, approximately \$63.3 million are set to expire from 2022 to 2033 and the remainder are available indefinitely.

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Deferred income tax liabilities and assets are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities. The components of the Company's gross deferred tax assets and liabilities are as follows of December 31, 2020 and 2019, (in thousands):

Deferred Tax Assets:	<u>2020</u>	<u>2019</u>
NOL carryforwards – federal and state	\$17,315	\$18,115
Tax basis of assets in excess of book basis:		
Other	17	12
Book basis of liabilities in excess of tax basis:		
Prepaid rental revenue	<u>86</u>	<u>98</u>
Gross deferred tax assets	17,418	18,225
Less: valuation allowance	<u>(9,009)</u>	<u>(10,780)</u>
Gross deferred tax assets	<u>8,409</u>	<u>7,445</u>
Deferred Tax Liabilities:		
Book basis of assets in excess of tax basis:		
Fixed/intangible assets	(683)	(363)
Investments in and advances to joint ventures	<u>(7,726)</u>	<u>(7,082)</u>
Gross deferred tax liabilities	<u>(8,409)</u>	<u>(7,445)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance related to the net deferred tax assets decreased by approximately \$1.8 million and increased by \$1.0 million in 2020 and 2019, respectively.

The Company's effective tax rate in 2020 and 2019 is lower than if the federal statutory rate were applied to net loss before income tax primarily due to the change in valuation allowance.

Note 6 - Leases

Space in the Company's centers is leased to various tenants under operating leases, which are generally for one to five year periods. Some leases contain renewal options and may also provide for the payment of a tenant's share of certain operating expenses. Leases may also obligate a tenant to pay rent based on a percentage of sales in excess of certain thresholds. Minimum future rentals to be received under non-cancelable leases are summarized as follows (in thousands):

2021	\$ 345
2022	289
2023	226
2024	215
2025	34
<i>Thereafter</i>	<u>-</u>
	<u>\$ 1,109</u>

The above scheduled rentals are subject to the usual business risks associated with collection. Burlington, Fremont and Oshkosh properties have not been included in the above scheduled rentals due to receivership.

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Note 7 - Mortgages and Other Debt

Principal Balance as of:

December 31, 2020 December 31, 2019

<p>Mortgage loan to Village Green Associates, LLC, from Peoples Bank SB, formerly First Personal Bank, (lender) with an interest rate of 6.5%, a maturity date of March 1, 2019, amended and extended to April 1, 2027, with an interest rate of 6.25%, secured by the shopping center in Huntley, Illinois and guaranteed by the Company. On April 1, 2020, the loan was amended in response to the COVID-19 outbreak to include a deferred payment period including principal and interest from April 1, 2020 through June 1, 2020, with deferred principal amounts added to the outstanding principal balance of the loan and due at maturity. The loan will be paid through 59 monthly payments of \$23,633, and 93 monthly payments of \$23,063, including interest, and one balloon payment of \$22,944.</p>	\$ 1,511	\$ 1,621
<p>Mortgage loan to BFO Factory Shoppes LLC, from Starwood Mortgage Capital, LLC secured by The Outlet Shoppes at Burlington and Oshkosh, and Phases II and III of the Outlet Shoppes at Fremont, with an interest rate of 4.509%. Monthly payments of interest only through March 6, 2017. Starting on April 6, 2017, principal and interest payments of \$277,300 are due each month, and a balloon payment is due at maturity on March 6, 2025 (see Note 3).</p>	51,632	52,262
<p>Mortgage loan to Huntley Development Limited Partnership, from Heartland Bank and Trust bearing interest at prime (3.25% and 4.75% at December 31, 2020 and 2019, respectively) plus 1.5% and maturing on July 1, 2019, amended and extended to July 1, 2021. Payments consist of 58 monthly interest payments beginning on August 1, 2016, principal payments of \$750,000 on January 31, 2017, annual principal payments of \$700,000 starting on June 30 2017, and a balloon payment on July 1, 2021. On April 1, 2020, the loan was amended in response to the COVID-19 outbreak to deferred interest payments from April 1, 2020 through May 1, 2020. Subsequently, the loan payment schedule was changed to included 12 regular payments of \$80,000 each beginning July 1, 2020 and a balloon payment of \$3,417,053 on July 1, 2021. The Company guarantees this loan.</p>	3,745	4,123
<p>Promissory revolving draw note of \$5 million to Horizon Group Properties, LP, from Pleasant Lake Apts., LP bearing interest at prime per annum and maturing on May 28, 2024. Payments consist of monthly interest payments beginning August 2019 with a balloon payment on May 28, 2024. The note is guaranteed by the Company and secured by its pledged membership interest in Horizon Louisville and in Horizon El Paso as it relates to the outparcels and ancillary land in El Paso.</p>	3,500	3,250
<p>Unsecured, non-interest bearing, seller financed note due to CBL for their 75% interest in WGI. The note is payable when the south parcel of the Holdings land is sold.</p>	750	1,000
<p>Promissory note to Horizon Group Properties, LP, from Gary J. Skoien bearing interest at 1.00%, maturing on June 1, 2025, secured by the Promissory Note dated September 30, 2020 from Phillip Waters, an officer of the Company. Payments are due in the same aggregate amounts as due from Phillip Waters.</p>	304	-

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Huntley Net Profits Interests and TIF Bonds

Gary J. Skoien was formerly the Executive Vice President and Chief Operating Officer of The Prime Group, Inc. (“Prime Group”). In connection with his employment with Prime Group, Mr. Skoien was previously granted an interest (the “Skoien Net Profits Interest”) in the net profits generated by HDLP, an entity which owns approximately 355 acres of land in in Huntley, Illinois (the “Huntley Project”). The Company assumed this obligation in connection with the purchase of the Huntley Project from Prime Group. The Skoien Net Profits Interest consists of a 9.675% participation in the Net Cash Flow (as defined in Mr. Skoien’s Net Profits Agreement) distributed to the Company (excluding distributions of all amounts contributed or advanced by the Company to the Huntley Project plus interest per the terms of the agreement) from the Huntley Project. There was no liability at December 31, 2020 and 2019.

Note 8 - Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access
- Level 2 Other significant observable inputs including: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 Inputs are significant and unobservable (including the Company’s own assumptions used to determine value)

The assets’ fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investment In Joint Ventures:

The Company prepares detailed valuations based on their evaluations of financial and operating data, specific operating developments for the investment, market valuations of comparable properties and transactions, changes in key observable inputs, as well as changes in economic and other factors.

At December 31, 2020, the Company used a discounted cash flow approach to estimate fair value of joint ventures and considers significant unobservable inputs such as discount rates. At December 31, 2019, the Company used an income approach to estimate fair value and considers significant unobservable inputs such as capitalization rates. The methodologies utilized by the Company to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the report date.

Assets measured at fair value by level, in thousands, within the fair value hierarchy, are comprised of the following at December 31, 2020:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in Joint Ventures	\$ _____	\$ _____	\$ <u>49,780</u>

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Assets measured at fair value by level, in thousands, within the fair value hierarchy, are comprised of the following at December 31, 2019:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in Joint Ventures	\$ _____	\$ _____	\$ <u>50,649</u>

Following is a reconciliation of activity, in thousands, for the years ended December 31, 2020 and 2019, for the fair value of the Company's Level 3 assets:

	<u>2020</u>	<u>2019</u>
Balance, beginning of period	\$50,649	\$50,449
Unrealized gains (losses)	1,037	3,925
Distributions	<u>(1,906)</u>	<u>(3,725)</u>
Balance, end of period	<u>\$49,780</u>	<u>\$50,649</u>

Quantitative information about the Company's Level 3 inputs for the years ended December 31, 2020 and 2019, are as follows:

<u>Valuation Technique</u>	<u>Significant Unobservable Input</u>
Income approach	Capitalization rate – 6.75% - 7%
Discounted cash flow approach	Discount rate – 8.25%
	Terminal capitalization rate – 7.5%
	Market rent growth rate – 2.75%

Note 9 - Related Party Transactions

At December 31, 2020 and 2019, PLA owns (1) 17.625%, of interest in El Paso Holding, (2) 11.75%, of El Paso Outparcels, and (3) 7.611%, of interest in Atlanta JV.

At December 31, 2020 and 2019, PL Skoien, owns (1) 0% and 46.06%, respectively of the interests in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; and Oshkosh, WI, (2) 0% and 29.8% of the interests in the entities that own the outlet center and related assets in Gettysburg, PA, (3) 46.4% of Horizon Atlanta, (4) 47.54% of Horizon Louisville, (5) 0% and 14.7%, respectively of Horizon El Portal, LLC, (6) 1.495 % and 7.375%, respectively of El Paso Holding, (7) 4.9167%, of El Paso Outparcels, and (8) 7.389%, of interest in Atlanta JV.

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

At December 31, 2020 and 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 December 31, 2020 and 2019, the Net Profits Interest liability approximated \$7.8 million and \$8.0 million, respectively.

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 Rumpitz and Andrew Pelmoter, respectively; (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumpitz, Pelmoter and

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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 2020 and 2019, PLA loaned the Company \$250,000 and \$3.25 million, respectively. In conjunction with the loans the Company issued warrants that permit PLA to acquire 583,334 limited partnership units or shares as of December 31, 2020 and 541,667 as of December 31, 2019. The warrants have an exercise price of \$3.00 per share or unit and expire on May 29, 2024.

On December 16, 2020, the Company issued 1,056,833 shares of stock valued at \$1.00 per share to acquire 100% ownership of PLS-BFO, LLC, an entity owned by PL Skoien to which it had contributed ownership representing the economic interest of 46.06% of BFO, 29.84% of Gettysburg entities, 14.7% of Horizon El Portal and 5.9% of El Paso Holding.

Note 10 - 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.

Certain states and cities, including where the Company own properties and where its 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 affecting many industries directly or indirectly, including the retail industry in which the Company and our tenants operate.

A majority of our tenants announced temporary closures or other limits on the operations of their stores and some have 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 11 - 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 \$1.2 million. The Company guaranteed a term loan to Horizon JR Oshkosh, LLC from Bank First National for \$328,762 bearing interest at 5.58% per annum, with a maturity date of February 22, 2022. The loan balance was \$63,000 and \$82,000, at December 31, 2020 and 2019, respectively. The Company continues to make payments on the loan per the loan agreement.

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Summary financial information of the discontinued operation as of December 31, 2020 and 2019, and for the years ended December 31, 2020 and 2019, is as follows (in thousands):

	As of December 31, 2020	As of December 31, 2019
Assets		
Buildings and improvements	\$ -	\$ 2,492
Less accumulated depreciation	-	(1,216)
	-	1,276
Construction in progress	-	4
Total net real estate	-	1,280
Cash and cash equivalents	-	297
Tenant and other accounts receivable, net	-	5
Deferred costs, net of accumulated amortization	-	124
Other assets	-	93
Total assets	<u>\$ -</u>	<u>\$ 1,799</u>

Liabilities and members' equity (deficit)

Mortgages and other debt	\$ 63	\$ 82
Other liabilities	-	165
Members' equity (deficit)	(63)	1,552
Total liabilities and members' equity (deficit)	<u>\$ -</u>	<u>\$ 1,799</u>

	Year Ended December 31, 2020	Year Ended December 31, 2019
Reconciliation to amount of loss on financials		
Restaurant revenue	\$ 542	\$ 3,500
Other	113	-
Total revenue	<u>655</u>	<u>3,500</u>
Restaurant operating	894	3,719
General and administrative expenses	5	5
Depreciation and amortization expense	132	459
Interest expense	5	6
Total expenses	<u>1,036</u>	<u>4,189</u>
Loss from the disposal of discontinued operations	(1,216)	-
Total income (loss) of discontinued operations	<u>\$ (1,597)</u>	<u>\$ (689)</u>

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Note 12 - Laws and Regulations

Laws and regulations over federal funds received by the Company as a result of the CARES Act and the CAA Act are complex and subject to interpretation. Potential noncompliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory action. The Company believes it is in compliance with all applicable laws and regulations and believes there are no material contingencies related to laws and regulations governing the Company's use of federal funds.

Note 13 - Subsequent Events

Subsequent to year end, the Company received two loans totaling approximately \$1.3 million from US Bank as guaranteed by the Small Business Administration's Paycheck Protection Program under the CAA Act 2021 (PPP2). The loans can be 100% forgiven if the Company meets specific criteria, as defined, for a specific covered period following the receipt of loan proceeds. These criteria include demonstrating certain reductions in revenue and maintaining a certain level of employee headcount and compensation during that time period as well as demonstrating that the loan proceeds were used for costs such as payroll, rent, mortgage interest, utilities, and other costs, as defined. If the Company does not apply and receive forgiveness, the loan will be required to be repaid in equal installments beginning ten months after the deferral period end date, including interest at 1%, plus a final payment equal to all unpaid principal and accrued interest on January 28, 2026. Management expects the Company to meet the criteria for loan forgiveness.