

**Condensed Consolidated Financial Statements**

**Horizon Group Properties, Inc.**

**For the three months ended March 31, 2007 and 2006**

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

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

	March 31, 2007	December 31, 2006
	<i>(In thousands)</i>	
<b>ASSETS</b>		
Real estate – at cost:		
Land	\$ 7,776	\$ 7,776
Buildings and improvements	13,220	13,122
Less accumulated depreciation	<u>(2,954)</u>	<u>(2,832)</u>
	18,042	18,066
Construction in progress	18,768	4,205
Land held for investment	<u>19,884</u>	<u>19,884</u>
Total net real estate	56,694	42,155
Investment in joint ventures	2,728	2,880
Cash and cash equivalents	9,140	6,534
Restricted cash	7,987	5,299
Marketable securities	19,481	21,530
Tenant and other accounts receivable, net	1,477	1,441
Deferred costs (net of accumulated amortization of \$439 and \$554, respectively)	1,462	781
Other assets	<u>6,329</u>	<u>7,264</u>
Total assets	<u>\$105,298</u>	<u>\$87,884</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Mortgages and other debt	\$ 56,433	\$36,318
Accounts payable and other accrued expenses	6,329	5,763
Prepaid rents and other tenant liabilities	277	227
Participation interests and other liabilities	<u>3,102</u>	<u>3,102</u>
Total liabilities	<u>66,141</u>	<u>45,410</u>
<b>Minority interests</b>	<u>17,222</u>	<u>19,845</u>
<b>Stockholders' equity:</b>		
Common shares (\$.01 par value, 50,000 shares authorized, 2,913 and 2,879 issued and outstanding, respectively)	29	29
Additional paid-in capital	37,522	37,295
Accumulated deficit	<u>(15,616)</u>	<u>(14,695)</u>
Total stockholders' equity	<u>21,935</u>	<u>22,629</u>
Total liabilities and stockholders' equity	<u>\$105,298</u>	<u>\$87,884</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Three months ended March 31, 2007	Three months ended March 31, 2006
<i>(In thousands)</i>		
<b>REVENUE</b>		
Base rent	\$ 429	\$ 454
Percentage rent	5	8
Expense recoveries	103	78
Other	393	291
Interest	<u>399</u>	<u>352</u>
Total revenue	<u>1,329</u>	<u>1,183</u>
<b>EXPENSES</b>		
Property operating	453	255
Real estate taxes	79	75
Other operating	81	67
Depreciation and amortization	158	159
General and administrative	1,600	1,264
Interest	824	974
Loss on marketable securities	<u>69</u>	<u>260</u>
Total expenses	3,264	3,054
Loss from investment in joint venture	<u>(151)</u>	<u>(181)</u>
Loss from continuing operations before minority interests and income from discontinued operations	(2,086)	(2,052)
Minority interests	<u>859</u>	<u>795</u>
Loss from continuing operations	(1,227)	(1,257)
Income from discontinued operations, net of minority interests	<u>306</u>	<u>75</u>
Net loss	<u>\$ (921)</u>	<u>\$ (1,182)</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Three months ended March 31, 2007	Three months ended March 31, 2006
	<i>(In thousands)</i>	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (921)	\$(1,182)
Net gain on sale of real estate	(449)	-
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interests, including amounts in net gain on sale of real estate and discontinued operations	(723)	(657)
Loss from investment in joint venture	151	181
Depreciation	124	1,128
Amortization, including deferred financing costs	83	275
Loss on marketable securities	69	-
HGPI stock grants	227	70
Changes in assets and liabilities:		
Restricted cash	312	(434)
Tenant and other accounts receivable	(36)	398
Deferred costs and other assets	(735)	(558)
Accounts payable and other accrued expenses	567	(648)
Prepaid rents and other tenant liabilities	50	157
<b>Net cash used in operating activities</b>	<u>(1,281)</u>	<u>(1,270)</u>
<b>Cash flows from investing activities:</b>		
Expenditures for buildings and improvements	(14,663)	(1,081)
Net repayment of note receivable	1,587	-
Net marketable securities activity	1,980	(202)
Net proceeds from sale of real estate	478	-
<b>Net cash used in investing activities</b>	<u>(10,618)</u>	<u>(1,283)</u>
<b>Cash flows from financing activities:</b>		
Net distributions to minority interests	(1,899)	(110)
Principal payments on mortgages and other debt	(13,974)	(412)
Proceeds from borrowings	31,089	3,132
Debt issue costs	(711)	-
<b>Net cash provided by financing activities</b>	<u>14,505</u>	<u>2,610</u>
<b>Net increase in cash and cash equivalents</b>	2,606	57
<b>Cash and cash equivalents:</b>		
Beginning of period	<u>6,534</u>	<u>813</u>
End of period	<u>\$ 9,140</u>	<u>\$ 870</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended <u>March 31, 2007</u>	Three Months Ended <u>March , 2006</u>
<b>Supplemental Information -</b>		
Fully depreciated/amortized assets disposed of:		
Buildings and improvements	\$ 2	\$214
Deferred costs	<u>195</u>	<u>8</u>
	<u>\$197</u>	<u>\$222</u>

*See accompanying notes to condensed consolidated financial statements.*

HORIZON GROUP PROPERTIES, INC.  
Condensed Notes to Consolidated Financial Statements  
(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 primarily conducted through a subsidiary limited partnership, Horizon Group Properties, L.P. (“HGP LP”) of which HGPI is the sole general partner. As of March 31, 2007, HGPI owned approximately 68.6% 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, the results for the interim period ended March, 31, 2007 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. In the opinion of management, all adjustments necessary for fair presentation (including normal recurring accruals) have been included. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2006 Annual Report.

HGPI’s primary assets are its investments in subsidiary partnerships that own real estate. HGPI consolidates the results of operations and the balance sheets of those partnerships in which HGPI owns the majority interest, and of variable interest entities of which they are the primary beneficiaries. The Company accounts for partnerships which do not meet these criteria using the equity method.

As of March 31, 2007, the Company owned 88.2% of Horizon El Paso, LLC (“Horizon El Paso”), which owns 50% of El Paso Outlet Center, LLC, (“El Paso Center”), a joint venture that acquired approximately 100 acres of unimproved land in El Paso, Texas in April 2006. The remaining 11.8% is owned equally by an affiliate of Howard Amster (“Amster”), a director and significant stockholder of the Company, and Gary Skoien (“Skoien”), Chairman, President and CEO of the Company. The joint venture has begun construction of a factory outlet center on the site. Horizon El Paso reported the results of operations and the assets and liabilities of El Paso Center using the equity method of accounting through August 31, 2006. As of September 1, 2006 Horizon El Paso began to consolidate the results of operations and the assets and liabilities of El Paso Center as a result of certain loans made to the joint venture partner by the Company. Effective September 1, 2006, El Paso Center was judged to be a variable interest entity. The Company has certain guaranties related to loans made in connection with the construction of the center (see Note 5). When these loans are repaid or the guaranties expire, the equity method of accounting may again be applicable to Horizon El Paso’s investment in El Paso Center. HGPI consolidates the results of operations and the assets and liabilities of Horizon El Paso.

The Company also owns a 22,000 square foot shopping center located in Huntley, Illinois, an office building located in Norton Shores, Michigan (a portion of which it occupies) and approximately 408 acres of land in a master planned community in Huntley, Illinois (the “Huntley Project”) that is held for investment purposes.

Prior to July 28, 2006, HGP owned controlling interests in entities which owned nine factory outlet centers located in seven states comprising an aggregate of approximately 1.8 million square feet of gross leasable area (“GLA”). Six of the factory outlet centers containing 1.3 million square feet of GLA were sold on July 28, 2006 and another center was sold in November 2006 (See Note 2). An affiliate of Amster owned approximately 49% of the entities that sold the six outlet shopping centers (except the entity that owned the center in Darien, Georgia of which he owned approximately 44% and of which Gary Skoien owned 5.3%).

HORIZON GROUP PROPERTIES, INC.  
Condensed Notes to Consolidated Financial Statements  
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Note 2 - Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States, 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 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 financial statements and are of a normal and recurring nature.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and all subsidiaries that the Company controls, including HGP LP. The Company considers itself to control an entity if it is the majority owner of and has voting control over such entity. All significant intercompany balances and transactions have been eliminated in consolidation. In accordance with Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities," the Company consolidates variable interest entities if it is that entity's primary beneficiary.

Reclassifications

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

Discontinued Operations

In accordance with Statement of Financial Accounting Standards, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), assets held for sale are valued at the lower of carrying value or fair value less costs to dispose. SFAS 144 requires that the results of operations and gain/(loss) on real estate properties sold or held for sale be reflected in the consolidated statements of operations as "Income/(Loss) from Discontinued Operations" for all periods presented. As of March 31, 2007, the Company has no assets classified as held for sale. Results of operations from the six factory outlet centers sold to Prescott Capital Management, LLC ("Prescott") in July 2006 and the outlet center located in Monroe, Michigan sold in November 2006 and the vacant land parcel in Michigan sold in January 2007 are included in the discontinued operations line items on the statements of operations. The six centers sold to Prescott are located in Darien, Georgia; Laughlin, Nevada; Medford, Minnesota; Traverse City, Michigan; Tulare, California and Warrenton, Missouri. SFAS 144 requires that prior period financial statements presented are also reclassified for comparability. This reclassification has no effect on the Company's previously reported net income or loss.

Revenue Recognition

Leases with tenants are accounted for as operating leases. Minimum annual rentals are recognized on a straight-line basis over the terms of the respective leases. Rents which 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.  
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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.

Recent Financial Accounting Standards

On January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have any impact on the financial position or results of operations of the Company.

In September 2006, the FASB issued FASB No. 157, "Fair Value Measurements". SFAS 157 is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by GAAP; it does not create or modify any current GAAP requirements to apply fair value accounting. The Standard provides a single definition for fair value that is to be applied consistently for all accounting applications, and also generally describes and prioritizes according to reliability the methods and inputs used in valuations. SFAS 157 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The new measurement and disclosure requirements of SFAS 157 are effective for us in the first quarter of 2008. The adoption of SFAS 157 is not expected to have a significant impact on the results of operations or financial position of the Company.

Note 3- Investment in Joint Ventures

The Company owns 51% of Horizon El Portal, LLC ("Horizon El Portal"), an entity of which HGP LP is the managing member and of which the remaining 49% is owned by Gary Skoien and Pleasant Lake Apts. Limited Partnership ("PLA"), an affiliate of Amster. Horizon El Portal owns 50% of a joint venture ("El Portal Center") that owns a shopping center in Laredo, Texas containing approximately 345,000 square feet of GLA. For its ownership in the El Portal Center joint venture, Horizon El Portal contributed \$3.0 million in cash and assumed the responsibility for the payments on an existing \$3.0 million loan secured by the shopping center owned by El Portal Center. This loan was refinanced in June 2006. Horizon El Portal reports the results of operations and the assets and liabilities of El Portal Center using the equity method of accounting. HGPI consolidates the results of operations and the assets and liabilities of Horizon El Portal.

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Summary financial information (stated at 100%) of the El Portal Center joint venture at March 31, 2007 and December 31, 2006 and for the three months ended March 31, 2007 and 2006, respectively are as follows (in thousands):

	As of March 31, 2007	As of December 31, 2006
<b>Assets</b>		
Real Estate	\$11,718	\$11,737
Other assets	<u>281</u>	<u>408</u>
Total assets	<u>\$11,999</u>	<u>\$12,145</u>
<b>Liabilities and members' capital</b>		
Mortgages and other debt	\$ 6,307	\$ 6,163
Other liabilities	238	223
Members' capital	<u>5,454</u>	<u>5,759</u>
Total liabilities and members' capital	<u>\$11,999</u>	<u>\$12,145</u>
	Three months ended March 31, 2007	Three months ended March 31, 2006
Revenue	<u>\$ 146</u>	<u>\$ 282</u>
Operating expenses	242	256
General and administrative expenses	2	179
Depreciation and amortization expense	19	19
Interest expense	<u>188</u>	<u>187</u>
Total expenses	<u>451</u>	<u>641</u>
Net Loss	<u>\$(305)</u>	<u>\$(359)</u>

Note 4 – Commitments

The Company has outstanding commitments for capital expenditures on leases signed at March 31, 2007 in the amount of \$8.1 million for tenant allowances and \$24.2 million for other capital expenditures and construction costs, including the construction of the outlet center in El Paso, Texas, which are not reflected on the balance sheet as of March 31, 2007. These costs are expected to be paid during 2007 and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

Note 5 – Secured Debt

Total secured indebtedness was \$55.3 million and \$35.2 million at March 31, 2007 and December 31, 2006, respectively. Cash paid for interest, including on the properties classified as discontinued operations, for the three months ended March 31, 2007 and 2006 was \$114,000 and \$1.7 million, respectively.

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In February 2007, El Paso Outlet Center LLC (“El Paso Center”) entered into a construction loan agreement with IXIS Real Estate Capital (the “IXIS Loan”) in connection with the construction of the a 380,000 square foot outlet shopping center in El Paso, Texas. The loan agreement provides for a construction loan of up to \$60 million in connection with the construction of the center. The loan has a term of 12 months and bears interest at the rate of LIBOR plus 2.75%. Portions of the IXIS Loan are guaranteed by the Company. Initially, 100% of the amounts advanced were guaranteed, but upon achieving certain leasing thresholds (which were reached in July 2007) the guaranty decreased to 15% of the amounts advanced. Upon achieving certain occupancy levels, the guaranty will expire. The Company has also guaranteed the completion of the project. The Company receives a fee from its joint venture partner for such guaranties. The balance of the IXIS loan was \$13.7 million at March 31, 2007.

In February 2007, an affiliate of El Paso Center entered into a mezzanine loan agreement with an affiliate of Dominion Capital Management in connection with the construction of the outlet shopping center in El Paso. The total loan amount is \$9.5 million, \$1.5 million of which was advanced to an interest reserve and \$1.5 million of which was advanced to a deposit account and pledged as security for the loan. The initial interest rate is 16.8% which decreases to 12.0% upon the satisfaction of certain conditions, including the project achieving a 1.05 debt service coverage ratio (including payments due under the IXIS Loan). The loan has a term of three years. HGPI consolidates the results of operations and the assets and liabilities of this affiliate.

In March 2007, the Company entered into a loan agreement with US Bank (the “US Bank Loan”) secured by approximately 379 acres of vacant land owned by the Company in Huntley, Illinois (See Note 1 and below). The agreement provides for advances up to a total of \$23.4 million, bears interest at the rate of LIBOR plus 3% and matures on September 30, 2009. A portion of the total available to be advanced on the loan is designated for a \$3.4 million interest reserve which is funded as needed. The initial loan disbursement was \$10.5 million, \$9.9 million of which was used to repay existing indebtedness secured by the property. At March 31, 2007, the outstanding principal balance of the loan was \$10.5 million. Additional disbursements were made in conjunction with the acquisition of the shopping centers in Gettysburg, Pennsylvania; Burlington, Washington; Fremont, Indiana and Oshkosh, Wisconsin (see Note 9).

*Huntley Net Profits Interests and TIF Bonds*

Gary J. Skoien, Chairman, Chief Executive Officer and President of the Company, was also 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 proceeds generated by the Huntley Project, which he retained after the Company’s 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). The Company has recorded a liability for the Skoien Net Profits Interest in the amount of \$2.6 million as of March 31, 2007 and December 31, 2006, which represents its estimated fair value as of such dates and which amount has been included in Participation Interests and Other Liabilities on the Company’s balance sheet.

The Company granted to Prime Group and certain of its affiliates, a participation interest of 26% of the net cash flow distributions from the Huntley Project (the “Prime Group Participation Interest”) as additional consideration for the purchase of the Huntley Project from Prime Group. The Prime Group Participation Interest does not entitle Prime Group to participate in decision making or otherwise control the activities of the Huntley Project. No amount is payable to Prime Group until the Company has received distributions in excess of its purchase price and advances made by the Company to the Huntley Project plus a 40% return on such amounts, compounded quarterly. Aggregate amounts payable pursuant to the Prime Group Participation Interest are limited to \$5.0 million. No liability has been recorded by the Company for the Prime Group Participation Interest as its current fair value is estimated to be zero.

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In 1993, the Village of Huntley (the "Village") created a Tax Increment Financing District (the "TIF District") which is authorized to issue up to \$108.0 million of tax-exempt, tax-increment bonds (the "TIF Bonds") to reimburse Huntley Development Limited Partnership ("HDLP") for a portion of the land cost and the cost of infrastructure improvements. In 1995, the Village sold \$7.0 million of Series A bonds and \$14.0 million of Series B bonds. HDLP owns the Series C bonds with a principal amount of \$24.4 million plus accrued interest. The Series C bonds are subordinate to the Series A and Series B bonds. Currently no portion of the tax increment is available to the Series C bonds and no value has been ascribed to them by the Company.

The TIF District contains approximately 900 acres of land currently or previously owned by HDLP or Huntley Meadows Residential Venture. The source of repayment for the TIF Bonds is (a) 100% of the increase in real estate taxes on the land in the TIF District above the taxes in place when the TIF District was created, (b) one-half of the Village's one percent (1%) sales tax collected on retail sales occurring within the TIF District and (c) reserve funds established at the time of issuance of the TIF Bonds of \$700,000 for the Series A bonds and \$3.09 million for the Series B bonds as security for the payment of principal and interest on the TIF Bonds. To the extent the reserve funds are not needed to service the bonds, they will be returned to HDLP. These funds are held in interest bearing accounts under the control of the TIF Bond trustee and totaled approximately \$2.4 million at March 31, 2007. There can be no assurance that these funds will be returned to HDLP and, therefore, they are not reflected on the balance sheet of the Company. The repayment of the TIF Bonds is not an obligation of the Company and thus they are not reflected on the Company's balance sheet as a liability.

As additional security for the Series B bonds, HDLP granted U.S. Bank Trust National Association, as trustee for the holders of the Series B bonds, a mortgage on certain land in the TIF District. As of March 31, 2007, the mortgage covers approximately 17 acres of land owned by HDLP (the "TIF Bond Mortgage"). Upon the sale of land subject to the TIF Bond Mortgage, such parcel will be released from the TIF Bond Mortgage provided that HDLP deposits into a collateral account (the "TIF Bond Collateral Account") an amount equal to the greater of (i) 50% of the July 1997 appraised value of such parcel or (ii) an amount per square foot of the parcel sold as set forth in Exhibit B to the Amended and Restated Intercreditor Agreement. Amounts deposited into the TIF Bond Collateral Account are released to HDLP upon the issuance of a certificate of occupancy for the subject land parcel. The balance in the TIF Bond Collateral Account was approximately \$3.9 million at March 31, 2007 and is included in Restricted Cash on the Company's balance sheet. Based on management's review of the current incremental real estate and sales tax revenue and the available debt service reserve funds, the Company believes that the tax revenues and debt service reserve funds will be sufficient to make the scheduled debt service payments on the Series A and B bonds. Further, HDLP has no continuing legal obligation related to the proceeds received from the TIF Bonds and thus, no liability has been recognized related to this mortgage.

Note 6 - Related Party Transactions

Howard Amster ("Amster") is a director and significant stockholder of HGPI. An affiliate of Amster owns approximately 44% of the entity that owned the center in Darien, Georgia and 49% of the entities that own the office building in Norton Shores, Michigan and two outlet shopping centers. His affiliate also owns 39.2% of Horizon El Portal, LLC and 5.9% of Horizon El Paso, LLC. In connection with his ownership, Amster's affiliate entered into an agreement to reimburse the Company for a portion of the general and administrative expenses related to the operation of the entities that he owns. Certain expenses related to the general operation of the Company are not subject to the reimbursement agreement. The Company recognized income related to this arrangement of \$335,000 and \$250,000 during the three months ended March 31, 2007 and 2006, respectively. Included in other assets in the condensed consolidated balance sheet at March 31, 2007 is an unsecured note receivable from Amster for approximately \$1.42 million which bears interest at 5.0%.

Gary J. Skoien is Chairman, Chief Executive Officer and President of the Company. Mr. Skoien owns 9.8% of Horizon El Portal, LLC, 5.9% of Horizon El Paso, LLC and 5.3% of the entity that formerly owned the outlet center in Darien, Georgia. He was also formerly Executive Vice President and Chief Operating Officer of Prime Group and

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while in that capacity was granted and still owns a net profits interest in Huntley Development Limited Partnership (see the discussion of *Huntley Net Profits Interests and TIF Bonds* in Note 5). Certain loans of the Company require an officer of the Company to be personally liable for losses suffered by the lender for environmental damages and certain actions prohibited under the loan documents. Mr. Skoien personally indemnified certain lenders for such losses and damages. The Company agreed to indemnify Mr. Skoien for any amounts paid under the indemnifications and to pay Mr. Skoien total annual fees of \$50,000 related to such indemnifications until such loans are repaid (or Mr. Skoien is otherwise released from the indemnification obligations).

The Company utilizes Thilman Filippini LLC as its agent for insurance and risk management programs. E. Thomas Thilman is a Director of the Company and President of Thilman Filippini LLC. The Company paid premiums totaling approximately \$36,000 and \$147,000 during the three months ended March 31, 2007 and 2006, respectively, related to insurance policies placed by Thilman Filippini LLC, including insurance premiums for properties classified as discontinued operations.

Note 7 – Recent Developments

In January 2007, the Company sold a one-acre parcel of land located in Fruitport Township, Michigan for \$506,000. Approximately \$437,000 of the proceeds was used to partially repay the mortgage loan from First Bank of Beverly Hills. A gain of approximately \$449,000, before minority interests, was recognized on the transaction.

Note 8 – Discontinued Operations

In accordance with SFAS 144, the results of operations and gain/(loss) on real estate properties sold or held for sale are reflected in the consolidated statements of operations as “Income/(Loss) from Discontinued Operations”.

The following table is a summary of the results of operations of the properties classified as discontinued operations (see Note 2):

	Three months ended March 31, 2007	Three months ended March 31, 2006
	<i>(in thousand)s</i>	
Total revenue	\$ -	\$4,181
Operating expenses	2	1,834
General and administrative expenses	4	23
Depreciation and amortization expense	-	1,107
Interest expense	-	1,004
Total expenses	<u>6</u>	<u>3,968</u>
Income/(loss) before minority interests	(6)	213
Minority interests	4	(138)
Gain on sale of real estate, net of minority interests	<u>308</u>	-
Income from discontinued operations	<u>\$306</u>	<u>\$ 75</u>

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Note 9 – Subsequent Events

El Paso Center is currently constructing a 380,000 square foot outlet shopping center in El Paso, Texas (see Note 1) which is expected to open in the fourth quarter of 2007. The total construction cost of the center is estimated to be approximately \$70.0 million. The Company is acting as the leasing and construction manager for the project and receives fees from El Paso Center for such services.

The Company sold the 191,500 square foot outlet shopping center located in Gretna, Nebraska in June 2007. The gross sales price was \$3.85 million. The Company owned approximately 51% and an affiliate of Amster owned approximately 49% of the entity that owned the center. A gain of approximately \$325,000, before minority interests, will be recognized on the transaction.

The Company acquired the entity that owns an outlet shopping center located in Gettysburg, Pennsylvania on July 18, 2007. The center contains a total of approximately 252,000 square feet of retail space, a 35,000 square foot movie theater and ground leases to the Carlson Country Inn and TGI Friday's. The contract price was \$61.0 million, subject to customary prorations. The center is subject to existing debt which had a principal balance of \$43.5 million as of the date of closing which was assumed by the Company. The Company has also obtained a \$6.0 million mezzanine loan in connection with the acquisition.

The Company acquired three outlet shopping centers located in Burlington, Washington; Fremont, Indiana and Oshkosh, Wisconsin on August 9, 2007. The centers contain a total of approximately 674,000 square feet of retail space. The price was \$59.1 million, subject to customary prorations. The centers are subject to existing debt of \$53.0 million as of the date of closing which was assumed by the Company.