

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the three and nine months ended September 30, 2007 and 2006

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

Contents

Condensed Consolidated Balance Sheets at September 30, 2007 and December 31, 2006	3
Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2007 and September 30, 2006	4
Condensed Consolidated Statements of Operations for the Nine Months Ended September 30, 2007 and September 30, 2006	5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and September 30, 2006	6
Notes to Condensed Consolidated Financial Statements	9

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

	September 30, 2007	December 31, 2006
	<i>(In thousands)</i>	
ASSETS		
Real estate – at cost:		
Land	\$ 32,733	\$ 7,534
Buildings and improvements	103,449	9,458
Less accumulated depreciation	<u>(3,760)</u>	<u>(2,289)</u>
	132,422	14,703
Construction in progress	43,399	4,205
Land held for investment	<u>19,884</u>	<u>19,884</u>
Total net real estate	195,705	38,792
Investment in joint ventures	2,539	2,880
Cash and cash equivalents	3,422	6,534
Restricted cash	9,756	5,299
Marketable securities	8,715	21,530
Tenant and other accounts receivable, net	3,070	1,441
Real estate held for sale	-	3,380
Deferred costs (net of accumulated amortization of \$587 and \$433, respectively)	4,892	764
Other assets	<u>4,879</u>	<u>7,264</u>
Total assets	<u><u>\$232,978</u></u>	<u><u>\$87,884</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages and other debt	\$188,249	\$36,318
Accounts payable and other accrued expenses	9,458	5,763
Prepaid rents and other tenant liabilities	453	227
Participation interests and other liabilities	<u>2,607</u>	<u>3,102</u>
Total liabilities	<u>200,767</u>	<u>45,410</u>
Minority interests	<u>13,038</u>	<u>19,845</u>
Stockholders' equity:		
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>(18,378)</u>	<u>(14,695)</u>
Total stockholders' equity	<u>19,173</u>	<u>22,629</u>
Total liabilities and stockholders' equity	<u><u>\$232,978</u></u>	<u><u>\$87,884</u></u>

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30, 2007	Three months ended September 30, 2006
<i>(In thousands)</i>		
REVENUE		
Base rent	\$ 2,280	\$ 320
Percentage rent	8	-
Expense recoveries	718	91
Other	137	513
Interest	<u>286</u>	<u>362</u>
Total revenue	<u>3,429</u>	<u>1,286</u>
EXPENSES		
Property operating	759	205
Real estate taxes	351	61
Other operating	47	19
Depreciation and amortization	1,432	100
General and administrative	1,301	1,834
Interest	2,372	591
Gain on marketable securities	<u>(71)</u>	<u>(133)</u>
Total expenses	<u>6,191</u>	<u>2,677</u>
Loss from investment in joint venture	<u>(152)</u>	<u>(141)</u>
Loss from continuing operations before minority interests, loss on sale of real estate and income/(loss) from discontinued operations	(2,914)	(1,532)
Minority interests	<u>1,118</u>	<u>448</u>
Loss from continuing operations	(1,796)	(1,084)
Loss on sale of real estate	-	(18)
Income/(loss) from discontinued operations	<u>(1)</u>	<u>14,791</u>
Net income/(loss)	<u><u>\$ (1,797)</u></u>	<u><u>\$ 13,689</u></u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$ 2,837	\$ 894
Percentage rent	14	1
Expense recoveries	919	249
Other	969	925
Interest	<u>1,026</u>	<u>960</u>
Total revenue	<u>5,765</u>	<u>3,029</u>
EXPENSES		
Property operating	1,272	422
Real estate taxes	510	172
Other operating	190	90
Depreciation and amortization	1,659	309
General and administrative	4,323	4,398
Interest	4,239	2,952
Loss on marketable securities	<u>234</u>	<u>233</u>
Total expenses	<u>12,427</u>	<u>8,576</u>
Loss from investment in joint venture	<u>(446)</u>	<u>(417)</u>
Loss from continuing operations before minority interests, net gain on sale of real estate and income from discontinued operations	(7,108)	(5,964)
Minority interests	<u>2,964</u>	<u>2,199</u>
Loss from continuing operations	(4,144)	(3,765)
Net gain on sale of real estate	-	164
Income from discontinued operations	<u>461</u>	<u>15,223</u>
Net income/(loss)	<u><u>\$ (3,683)</u></u>	<u><u>\$ 11,622</u></u>

See accompanying notes to condensed consolidated financial statements.

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

	<u>Nine months ended</u> <u>September 30, 2007</u>	<u>Nine months ended</u> <u>September 30, 2006</u>
	<i>(In thousands)</i>	
Cash flows from operating activities:		
Net income/(loss)	\$(3,683)	\$11,622
Net gain on sale of real estate	(877)	(45,896)
Adjustments to reconcile net income/(loss) to net cash used in operating activities:		
Minority interests, including amounts in net gain on sale of real estate and discontinued operations	(2,622)	26,016
Loss from investment in joint venture	446	417
Depreciation	1,655	2,156
Amortization, including deferred financing costs	395	582
Loss on marketable securities	234	-
HGPI stock/partnership unit grants	227	90
Changes in assets and liabilities:		
Restricted cash	(1,479)	(221)
Tenant and other accounts receivable	(1,714)	526
Deferred costs and other assets	(254)	(1,096)
Accounts payable and other accrued expenses	358	3,359
Prepaid rents and other tenant liabilities	<u>2,016</u>	<u>(532)</u>
Net cash used in operating activities	<u>(5,298)</u>	<u>(2,977)</u>
Cash flows from investing activities:		
Repayment of note receivable	-	2,200
Net marketable securities activity	8,576	(13,728)
Investment in joint venture	(357)	(3,663)
Cash transferred in connection with sale of subsidiary	(822)	-
Expenditures for land held for investment	-	(235)
Acquisition of property (See Note 7)	(17,691)	-
Expenditures for buildings and improvements	(36,803)	(1,692)
Net proceeds from sale of real estate	<u>4,029</u>	<u>113,386</u>
Net cash provided by/(used in) investing activities	<u>(43,068)</u>	<u>96,268</u>
Cash flows from financing activities:		
Net distributions to minority interests	(3,564)	(27,320)
Principal payments on mortgages and other debt	(15,187)	(71,234)
Proceeds from borrowings	64,729	9,914
Debt issue costs	<u>(724)</u>	<u>(104)</u>
Net cash provided by/(used in) financing activities	<u>45,254</u>	<u>(88,744)</u>
Net increase/(decrease) in cash and cash equivalents	(3,112)	4,547
Cash and cash equivalents:		
Beginning of period	<u>6,534</u>	<u>813</u>
End of period	<u>\$ 3,422</u>	<u>\$ 5,360</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended <u>September 30, 2007</u>	Nine Months Ended <u>September 30, 2006</u>
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Supplemental Information -

During the nine months ended September 30, 2007 and 2006, the Company sold the following real estate assets (See Note 7):

Land	\$ 243	\$ 8,842
Buildings and improvements	3,667	77,333
Accumulated depreciation	(600)	(19,082)
Tenant and other accounts receivable, net	-	340
Land held for investment	-	(267)
Deferred costs	12	1,039
Other assets	30	(351)
Mortgages and other debt	-	(1,821)
Accounts payable and other accrued expenses	286	(466)
Prepaid rents and other tenant liabilities	(53)	200
Participation interest and other liabilities	-	(30)
Minority interests	<u>(106)</u>	<u>2,108</u>
Net assets sold	3,479	67,845
Gross proceeds from sale of real estate	<u>4,356</u>	<u>113,741</u>
Gain on sale of real estate	<u>\$ 877</u>	<u>\$ 45,896</u>

The following represents supplemental disclosure of significant cash activity from the gross proceeds from the sale of real estate (above) to arrive at the net proceeds from the sale of real estate as shown on the statement of cash flows for the nine months ended September 30, 2007 and 2006 (See Note 7):

Gross proceeds from sale of real estate	\$4,356	\$113,741
Restricted cash-escrow deposit	-	2,405
Accounts payable and other accrued expenses – closing costs	(321)	-
Prepaid rents and other tenant liabilities	(6)	-
Defeasance premium	-	(3,654)
Miscellaneous	-	894
Net proceeds from sale of real estate	<u>\$4,029</u>	<u>\$113,386</u>

The following represents supplemental disclosure of the sale of ownership interests in a subsidiary during the nine months ended September 30, 2007 (See Note 7):

Cash and cash equivalents	\$ 822
Restricted cash	22
Marketable securities	4,005
Tenant and other accounts receivable, net	(30)
Other assets	473
Mortgages and other debt	(3,892)
Accounts payable and other accrued expenses	(11)
Minority interests	<u>(758)</u>
Accounts receivable	<u>\$ 631</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended <u>September 30, 2007</u>	Nine Months Ended <u>September 30, 2006</u>
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The following represents the supplemental disclosure of noncash activity for the consolidation of the assets and liabilities of the El Paso Center as of September 1, 2006 (see Note 1):

Land		\$6,508
Buildings and improvements		1,142
Investment in joint venture		(1,849)
Deferred costs		77
Other assets		987
Mortgages and other debt		(3,228)
Accounts payable and accrued expenses		(201)
Minority interests		<u>(3,436)</u>
		<u>\$ -</u>

The following represents the supplemental disclosure of noncash activity for the disposal of fully depreciated/amortized assets disposed of during the nine months ended September 30, 2007 and 2006:

Buildings and improvements	\$ 133	\$ 248
Deferred costs	<u>331</u>	<u>93</u>
	<u>\$ 464</u>	<u>\$ 341</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 conducted primarily through a subsidiary limited partnership, Horizon Group Properties, L.P. (“HGP LP”) of which HGPI is the sole general partner. As of September 30, 2007, HGPI owned approximately 67.99% 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 September 30, 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.

The Company’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 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 partnerships which do not meet these criteria using the equity method.

The Company owns 88.2% of the preferred interests and 80.7% of the common interests in Horizon El Paso, LLC (“Horizon El Paso”), which owns 50% of El Paso Outlet Center Holding, LLC, (together with its subsidiaries, “El Paso Center”), a joint venture that developed an outlet shopping center in El Paso, Texas, which opened on October 11, 2007 and contains approximately 380,000 square feet of gross leasable area (“GLA”). An affiliate of Howard Amster (“Amster”), a director and significant stockholder of the Company owns 5.9% of the preferred and common interests and Gary Skoien (“Skoien”), Chairman, President and CEO of the Company owns 5.9% of the preferred interests and 7.2% of the common interests. 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 a result of certain loans made to the joint venture partner by the Company, El Paso Center was judged to be a variable interest entity and Horizon El Paso was the primary beneficiary. Therefore the Company began to consolidate the results of operations and the assets and liabilities of El Paso Center effective September 1, 2006. The Company also has certain guaranties related to loans made to the joint venture (See Note 5). When 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 and an office building located in Norton Shores, Michigan, a portion of which it occupies. It also owns approximately 408 acres of land in a master planned community in Huntley, Illinois (the “Huntley Project”) and approximately 100 acres of vacant land in Fruitport Township, Michigan, all of which is held for investment purposes.

Prior to July 28, 2006, the Company 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 GLA. Six of the factory outlet centers containing 1.3 million square feet of GLA were sold on July 28, 2006, a center was sold in November 2006 and another center was sold in June 2007 (See Notes 2 and 7). An affiliate of Amster owned approximately

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
(unaudited)

49% of the entities that sold the eight outlet shopping centers (except the entity that owned the center in Darien, Georgia of which it owned approximately 44% and of which Gary Skoien owned 5.3%).

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 GLA, 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 Company assumed existing debt secured by the property which had a principal balance of \$43.5 million as of the date of closing. The Company has also obtained a \$6.0 million mezzanine loan in connection with the acquisition. As of September 30, 2007, the principal balances of the debt were \$43.4 million and \$6.0 million, respectively.

On August 9, 2007, the Company acquired three outlet shopping centers located in Burlington, Washington; Fremont, Indiana; and Oshkosh, Wisconsin (the "BFO Centers"). The centers contain 174,055, 228,925 and 270,512 square feet of GLA, respectively. The aggregate acquisition price was \$59.1 million, subject to customary prorations. The centers collectively secure debt which the Company assumed at closing. The principal balance of the debt was \$53.0 million as of the date of acquisition and \$52.9 as of September 30, 2007.

Note 2 - Summary of Significant Accounting Policies

The condensed consolidated 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Principles of Consolidation

The condensed consolidated financial statements include the accounts of 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. 46R, "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 September 30, 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, the outlet center located in Monroe, Michigan sold in November 2006, the vacant land parcel in Michigan sold in January 2007 and the outlet center located in Gretna, Nebraska sold in June 2007 are

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
(unaudited)

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.

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 adoption of FIN 48 did not have any impact on the financial position or results of operations of the Company. As of and for the period ended September 30, 2007, the Company did not have a liability for any unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as interest or general and administrative expense in the statement of operations. During the period, the Company did not incur any interest or penalties. The Company is not subject to examination by U.S. federal tax authorities for tax years before 2004.

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, except as it relates to certain nonfinancial assets and liabilities for which the effective date will be first quarter of 2009. 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")

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
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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.

Summary financial information (stated at 100%) of the El Portal Center joint venture at September 30, 2007 and December 31, 2006 and for the three and nine months ended September 30, 2007 and 2006, respectively are as follows (in thousands):

	<u>As of</u> <u>September 30, 2007</u>	<u>As of</u> <u>December 31, 2006</u>		
Assets				
Real estate	\$11,713	\$11,737		
Other assets	<u>213</u>	<u>408</u>		
Total assets	<u>\$11,926</u>	<u>\$12,145</u>		
Liabilities and members' capital				
Mortgages and other debt	\$ 6,611	\$ 6,163		
Other liabilities	300	223		
Members' capital	<u>5,015</u>	<u>5,759</u>		
Total liabilities and members' capital	<u>\$11,926</u>	<u>\$12,145</u>		
	<u>Three months</u> <u>ended</u> <u>September 30,</u> <u>2007</u>	<u>Three months</u> <u>ended</u> <u>September 30,</u> <u>2006</u>	<u>Nine months</u> <u>ended</u> <u>September 30,</u> <u>2007</u>	<u>Nine months</u> <u>ended</u> <u>September 30,</u> <u>2006</u>
Revenue	<u>\$ 104</u>	<u>\$ 185</u>	<u>\$ 426</u>	<u>\$793</u>
Operating expenses	241	289	722	823
General and administrative expenses	(15)	(10)	2	181
Depreciation and amortization expense	18	4	55	39
Interest expense	<u>163</u>	<u>184</u>	<u>541</u>	<u>582</u>
Total expenses	<u>407</u>	<u>467</u>	<u>1,320</u>	<u>1,625</u>
Net Loss	<u>\$(303)</u>	<u>\$(282)</u>	<u>\$(894)</u>	<u>\$(832)</u>

Note 4 – Commitments

The Company has outstanding commitments for capital expenditures on leases signed at September 30, 2007 in the amount of \$12.6 million for tenant allowances and \$6.5 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 September 30, 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.

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
(unaudited)

Note 5 – Secured Debt

Total secured indebtedness was \$186.4 million and \$35.2 million at September 30, 2007 and December 31, 2006, respectively. Cash paid for interest, including on the properties classified as discontinued operations, for the three months ended September 30, 2007 and 2006 was \$869,000 and \$4.5 million, respectively, and for the nine months ended September 30, 2007 and 2006 was \$1.1 million and \$7.7 million, respectively. Interest advanced on loans or reserve accounts tied to loans for the three months ended September 30, 2007 and 2006 was \$1.4 million and \$496,000, respectively, and for the nine months ended September 30, 2007 and 2006 was \$2.8 million and \$1.2 million, respectively. The Company capitalized interest totaling \$587,000 and \$76,000 for the three months ended September 30, 2007 and 2006, respectively, and \$1.0 million and \$379,000 for the nine months ended September 30, 2007 and 2006, respectively.

In February 2007, El Paso Center entered into a construction loan agreement with IXIS Real Estate Capital (the “IXIS Loan”) the terms of which allow for a loan of up to \$60 million for the construction of the outlet shopping center in El Paso, Texas (See Note 1). 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 \$37.2 million at September 30, 2007. The loan was repaid in November 2007 (See Note 9).

In February 2007, El Paso Center entered into a mezzanine loan agreement with an affiliate of Dominion Capital Management (the “Dominion Mezzanine Loan”) 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 and had a balance of \$9.5 million at September 30, 2007. The loan was repaid in November 2007 (See Note 9).

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 (and not more than 65% of the appraised value of the mortgaged land), bears interest at the rate of LIBOR plus 3.0% and matures on September 30, 2009, with an option to extend the loan for one year subject to the satisfaction of certain conditions, including the repayment of at least \$10.0 million of the principal of the loan. The total amount of \$3.4 million is designated for the payment of interest and is drawn 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. During the three months ended September 30, 2007, proceeds from the US Bank Loan were used for the acquisition of the shopping center in Gettysburg, Pennsylvania and the BFO Centers (See Note 1). At September 30, 2007, the outstanding principal balance of the loan was \$20.5 million and the undisbursed loan proceeds are solely designated for the payment of interest. The Company entered into a guaranty in connection with the obligations under the US Bank Loan. The guaranty contains a covenant requiring that the Company maintain net worth of at least \$35.0 million and liquidity of \$5.0 million (each of which to be reasonably determined by US Bank).

In connection with the acquisition of the outlet shopping center Gettysburg, Pennsylvania on July 18, 2007, the Company assumed an existing first mortgage loan secured by the property (See Note 1). The loan matures in February 2016, bears interest at a fixed rate of 5.87% and requires principal payments calculated on a 30-year schedule. The loan is non-recourse to the Company with certain exceptions for environmental issues, misrepresentations and prohibited acts. The Company paid a 1.0% fee in connection with the assumption of the loan. The loan had a balance of \$43.4 million as of September 30, 2007.

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
(unaudited)

The Company also obtained a \$6.0 million mezzanine loan from CW Capital in connection with the acquisition of the Gettysburg center. The loan matures in February 2016 and initially bears interest at LIBOR plus 4.5%, increasing to LIBOR plus 9.5% upon the fourth anniversary of the loan. The loan is interest only for the first two years with principal payments due computed on a 25-year schedule thereafter. The loan is recourse to the Company which has also guaranteed the payment of interest on the loan and \$2.8 million of the loan principal. The loan requires that the Company maintain a minimum net worth of \$25.0 million and liquidity of at least \$5.0 million (each of which term as defined in the loan agreement). By the fourth anniversary of the loan, a deposit of \$2.8 million is required as collateral for such guaranty. The loan requires an annual minimum debt service coverage ratio (“DSCR”) of 1.05, 1.075, 1.10, and 1.15 in years 1, 2, 3, and 4, respectively, and 1.5 thereafter. The Company is required to make principal payments on the loan to achieve the applicable minimum DSCR on a proforma basis. The loan is secured by a pledge of the ownership interests in the entity that effectively owns the Gettysburg center as well as a first mortgage on approximately 37 acres of vacant land adjacent to the center. Upon repayment of loan principal amounts, an exit fee of 1.0% is due (subject to a 50% reduction if the proceeds are repaid with the proceeds of a loan from CW Capital or its affiliates). A deferred origination fee of .50% of the outstanding principal as of December 31, 2009 is payable on that date.

In connection with the acquisition of the BFO Centers on August 9, 2007 the Company assumed an existing first mortgage loan secured by the property (See Note 1). The loan matures in January 2016, bears interest at a fixed rate of 5.58% and requires principal payments calculated on a 30-year schedule. The loan is non-recourse to the Company with certain exceptions for environmental issues, misrepresentations and prohibited acts. The Company paid a .25% fee in connection with the assumption of the loan. The loan had a balance of \$52.9 million as of September 30, 2007.

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 profits generated by the Huntley Project, which obligation the Company assumed 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). The Company has recorded a liability for the Skoien Net Profits Interest in the amount of \$2.6 million as of September 30, 2007 and December 31, 2006, which represents its estimated fair value as of such dates and which amount is 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.

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

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
(unaudited)

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) reserves established at the time of issuance of the TIF Bonds (the "Initial TIF Reserves"). To the extent the Initial TIF Reserves are not needed to service the bonds, they will be returned to HDLP. The Initial TIF Reserves are held in interest bearing accounts under the control of the TIF Bond trustee and totaled approximately \$2.0 million at September 30, 2007. There can be no assurance that the Initial TIF Reserves 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 September 30, 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 \$4.0 million at September 30, 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. At September 30, 2007 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 a shopping center. His affiliate also owns 39.2% of Horizon El Portal, LLC and 5.9% of the preferred and common interests in 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 and a corresponding receivable related to this arrangement of \$700 and \$465,000 during the three months ended September 30, 2007 and 2006, respectively and \$550,000 and \$910,000 during the nine months ended September 30, 2007 and 2006, respectively. Starting July 1, 2007 the fee payable by Amster's affiliate was reduced to \$700 per quarter reflecting the sale of the majority of the jointly owned entities. Included in other assets in the condensed consolidated balance sheet at September 30, 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, 5.3% of the entity that formerly owned the outlet center in Darien, Georgia and 5.9% of the preferred interests and 7.2% of the common interests in Horizon El Paso, LLC. Common interests in Horizon El Paso (the "El Paso Net Profits Interests") were granted in May 2007 to Mr. Skoien, Thomas Rumptz and Andrew Pelmoter, officers of the Company, representing 1.3%, 2.6% and 3.5%, respectively, of the total common interests in Horizon El Paso, LLC. Holders of the El Paso Net Profits Interests are not entitled to any distributions until the

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
(unaudited)

holders of the preferred interests have received a return of their capital plus interest thereon calculated at an annual rate of 12%, compounded quarterly. The El Paso Net Profits Interests are accounted for as a profit sharing arrangement with compensation expense being recognized for payments related to such interests.

Mr. Skoien was formerly Executive Vice President and Chief Operating Officer of Prime Group and 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 \$377,000 and \$548,000 during the three months ended September 30, 2007 and 2006, respectively, and approximately \$426,000 and \$736,000 for the nine months ended September 30, 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 \$446,000, before minority interests, was recognized on the transaction.

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, was recognized on the transaction.

In June 2007, the Company sold its ownership interest in the entity that formerly owned the outlet center located in Monroe, Michigan. This interest was sold to an affiliate of Amster for its net book value pursuant to the terms of an agreement entered into in 2003 in which the Company had agreed to sell the entity to Amster after the entity had sold its real estate assets. A gain of approximately \$106,000 was recognized in connection with this sale transaction. A receivable for the sale of this interest is included in tenant and other accounts receivable on the balance sheet at September 30, 2007.

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. A deposit of \$2.0 million was paid during calendar year 2006. 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.

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
(unaudited)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed of the entity that owns the Gettysburg shopping center in addition to the mezzanine financing entered into at the date of acquisition. Such estimates are subject to refinement as additional valuation information is received.

	<i>(In thousands)</i>
Land	\$15,900
Buildings and improvements	43,729
Construction in progress	153
Other assets	<u>3,295</u>
	<u>\$63,077</u>
Mortgages and other debt	\$49,447
Accounts payable and other accrued expenses	183
Prepaid rents and other tenant liabilities	26
Contributed capital (cash paid)	<u>13,421</u>
	<u>\$63,077</u>

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.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed by the Company pursuant to the acquisition of the shopping centers in Washington, Indiana and Wisconsin at the date of acquisition. Such estimates are subject to refinement as additional valuation information is received.

	<i>(In thousands)</i>
Land	\$ 9,300
Buildings and improvements	50,125
Deferred costs	322
Other assets	<u>1,070</u>
	<u>\$60,817</u>
Mortgages and other debt	\$53,834
Accounts payable and other accrued expenses	700
Prepaid rents and other tenant liabilities	13
Contributed capital (cash paid)	<u>6,270</u>
	<u>\$60,817</u>

The results of operations for these four properties have been included from the date of their acquisition forward. The Company acquired these properties in an effort to enhance the value and size of its portfolio by capitalizing on their occupancy levels, tenant rosters, locations and expansion capabilities.

HORIZON GROUP PROPERTIES, INC.
Condensed Notes to Consolidated Financial Statements
(unaudited)

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 September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	<i>(in thousands)</i>			
Total revenue	<u>\$(10)</u>	<u>\$ 1,606</u>	<u>\$278</u>	<u>\$10,554</u>
Operating expenses	(6)	915	302	4,859
General and administrative expenses	-	(22)	(17)	9
Depreciation and amortization expense	-	74	68	2,113
Interest expense	<u>-</u>	<u>4,119</u>	<u>-</u>	<u>5,867</u>
Total expenses	<u>(6)</u>	<u>5,086</u>	<u>353</u>	<u>12,848</u>
Income/(loss) before minority interests and gain on sale of real estate	(4)	(3,480)	(75)	(2,294)
Minority interests	3	2,257	49	1,485
Gain on sale of real estate	<u>-</u>	<u>16,014</u>	<u>487</u>	<u>16,032</u>
Income from discontinued operations	<u>\$ (1)</u>	<u>\$14,791</u>	<u>\$461</u>	<u>\$15,223</u>

Note 9 – Subsequent Events

El Paso Center developed a 380,000 square foot outlet shopping center in El Paso, Texas (See Note 1) which opened in October 2007. The total construction cost of the center was approximately \$67 million. The Company is acting as the leasing and construction manager for the project and receives fees from El Paso Center for such services. El Paso Center obtained permanent financing on the center in November 2007. A senior loan of \$70.0 million was provided by Natixis Real Estate Capital (the “Natixis Loan”) and an initial preferred equity investment of \$9.5 million was provided by Dominion Capital Management (the “Dominion Loan”). The agreement calls for Dominion to make an additional \$3.0 million investment, but as of June 2008, Dominion has not made such contribution. The Natixis Loan matures in December 2017, bears interest at 7.06% and requires principal repayments amortized over a 30-year period. The Dominion Loan bears interest at 15.0% and matures in October 2010.

The proceeds from the Natixis Loan were used to repay the IXIS Loan (See Note 5), fund reserves with amounts necessary to complete construction of the project, fund reserves to be released upon tenant occupancy and the payment of rent and to make distributions to the members. Proceeds from the Dominion Loan were used to repay the Dominion Mezzanine Loan (See Note 5), fund certain reserves and make distributions to the members. Loan proceeds distributed to the members totaled \$10.9 million in the quarter ended December 31, 2007. When all of the disbursements have been made under the Natixis Loan and the Dominion Mezzanine Loan, distributions totaling \$416,000 are expected to be made to the holders of the El Paso Net Profits Interests (See Note 6) and this amount will be recognized as compensation expense in the quarter ended December 31, 2007. The Company has guaranteed completion of the center in El Paso and certain customary “non-recourse carve-outs”.