

Condensed Consolidated Financial Statements

Horizon Group Properties, Inc.

For the six months ended June 30, 2019 and 2018

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

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

|  | June 30, 2019         | December 31, 2018 |
|--|-----------------------|-------------------|
|  | <i>(In thousands)</i> |                   |
| <b>ASSETS</b>  |                       |                   |
| Real estate  |                       |                   |
| Land   | \$ 11,147             | \$ 11,574         |
| Buildings and improvements   | 47,163                | 47,006            |
| Less accumulated depreciation  | (10,651)              | (8,566)           |
|  | 47,659                | 50,014            |
| Construction in progress   | 254                   | 93                |
| Land held for investment   | 33,181                | 32,909            |
| Total net real estate  | 81,094                | 83,016            |
| Investment in and advances to joint ventures   | 36,906                | 34,216            |
| Investment in and advances to joint ventures, at fair value                                    | 50,449                | 50,449            |
| Cash and cash equivalents  | 930                   | 1,398             |
| Restricted cash  | 1,804                 | 2,751             |
| Tenant and other accounts receivable, net  | 1,120                 | 1,764             |
| Deferred costs (net of accumulated amortization of \$141 and \$116, respectively)              | 231                   | 233               |
| Other assets   | 1,386                 | 1,374             |
| Total assets   | \$ 173,920            | \$ 175,201        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                   |
| <b>Liabilities:</b>  |                       |                   |
| Mortgage and other debt (net of debt issuance costs of \$521 and \$584, respectively)          | \$ 64,193             | \$ 62,512         |
| Accounts payable and other accrued expenses  | 11,894                | 12,790            |
| Prepaid rents and other tenant liabilities   | 577                   | 724               |
| Total liabilities  | 76,664                | 76,026            |
| <b>Commitments and contingencies</b>   |                       |                   |
| <b>Stockholders' equity:</b>   |                       |                   |
| Common shares (\$.01 par value, 50,000 shares authorized, 8,742 shares issued and outstanding) | 87                    | 87                |
| Additional paid-in capital   | 81,697                | 81,697            |
| Accumulated deficit  | (27,954)              | (24,561)          |
| Total stockholders' equity attributable to the controlling interest                            | 53,830                | 57,223            |
| Noncontrolling interests in consolidated subsidiaries  | 43,426                | 41,952            |
| Total stockholders' equity   | 97,256                | 99,175            |
| Total liabilities and stockholders' equity   | \$ 173,920            | \$ 175,201        |

*See accompanying notes to condensed consolidated financial statements.*

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

|  | Three Months Ended<br>June 30, 2019 | Three Months Ended<br>June 30, 2018 |
|--|-------------------------------------|-------------------------------------|
| <i>(In thousands)</i>  |                                     |                                     |
| <b>REVENUE</b>   |                                     |                                     |
| Base rent  | \$ 1,773                            | \$ 1,914                            |
| Percentage rent  | 19                                  | 23                                  |
| Expense recoveries   | 165                                 | 192                                 |
| Restaurant revenue   | 872                                 | 847                                 |
| Other  | 530                                 | 944                                 |
| Total revenue  | 3,359                               | 3,920                               |
| <b>EXPENSES</b>  |                                     |                                     |
| Property operating   | 628                                 | 710                                 |
| Real estate taxes  | 274                                 | 359                                 |
| Other operating  | 218                                 | 228                                 |
| Depreciation and amortization  | 1,064                               | 1,083                               |
| General and administrative   | 1,338                               | 1,906                               |
| Restaurant operating   | 904                                 | 951                                 |
| Interest   | 760                                 | 766                                 |
| Total expenses   | 5,186                               | 6,003                               |
| <b>OTHER INCOME AND EXPENSE</b>  |                                     |                                     |
| Income (loss) from investment in joint ventures                        | 384                                 | (491)                               |
| Gain on sale of real estate  | 139                                 | 234                                 |
| Loss on abandonment of assets  | -                                   | (452)                               |
| Total other income and expense   | 523                                 | (709)                               |
| Consolidated net loss  | (1,304)                             | (2,792)                             |
| Less net loss (income) attributable to the<br>noncontrolling interests | (671)                               | 736                                 |
| Net loss attributable to the Company                                   | \$ (1,975)                          | \$ (2,056)                          |

*See accompanying notes to condensed consolidated financial statements.*

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

|  | Six Months Ended<br>June 30, 2019 | Six Months Ended<br>June 30, 2018 |
|--|-----------------------------------|-----------------------------------|
|  | <i>(In thousands)</i>             |                                   |
| <b>REVENUE</b>   |                                   |                                   |
| Base rent  | \$ 3,478                          | \$ 3,770                          |
| Percentage rent  | 33                                | 65                                |
| Expense recoveries   | 353                               | 450                               |
| Restaurant revenue   | 1,548                             | 1,534                             |
| Other  | 1,155                             | 1,435                             |
| Total revenue  | 6,567                             | 7,254                             |
| <b>EXPENSES</b>  |                                   |                                   |
| Property operating   | 1,333                             | 1,529                             |
| Real estate taxes  | 568                               | 657                               |
| Other operating  | 403                               | 390                               |
| Depreciation and amortization  | 2,179                             | 2,167                             |
| General and administrative   | 2,833                             | 4,138                             |
| Restaurant operating   | 1,759                             | 1,814                             |
| Interest   | 1,507                             | 1,526                             |
| Total expenses   | 10,582                            | 12,221                            |
| <b>OTHER INCOME AND EXPENSE</b>  |                                   |                                   |
| Income (loss) from investment in joint ventures                        | 882                               | (825)                             |
| Gain on sale of real estate  | 139                               | 217                               |
| Loss on abandonment of assets  | -                                 | (2,522)                           |
| Total other income and expense   | 1,021                             | (3,130)                           |
| Consolidated net loss  | (2,994)                           | (8,097)                           |
| Less net loss (income) attributable to the<br>noncontrolling interests | (399)                             | 1,632                             |
| Net loss attributable to the Company                                   | \$ (3,393)                        | \$ (6,465)                        |

*See accompanying notes to condensed consolidated financial statements.*

HORIZON GROUP PROPERTIES, INC.  
**Condensed Consolidated Statements of Stockholders' Equity**  
Six Months Ended June 30, 2019 and 2018  
*(unaudited, in thousands)*

|  | Common<br>Shares | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity<br>Attributable to<br>the Controlling<br>Interest | Noncontrolling<br>Interests in<br>Consolidated<br>Subsidiaries | Total<br>Stockholders'<br>Equity |
|--|------------------|----------------------------------|------------------------|--|--|----------------------------------|
| Balance, January 1, 2019                       | \$ 87            | \$ 81,697                        | \$ (24,561)            | \$ 57,223  | \$ 41,952  | \$ 99,175                        |
| Net income (loss)                              | -                | -                                | (3,393)                | (3,393)  | 399  | (2,994)                          |
| Unit retirement                                |                  |                                  |                        |  | (18)   | (18)                             |
| Contributions from<br>noncontrolling interests | -                | -                                | -                      | -  | 1,857  | 1,857                            |
| Distributions to<br>noncontrolling interests   | -                | -                                | -                      | -  | (764)  | (764)                            |
| Balance, June 30, 2019                         | <u>\$ 87</u>     | <u>\$ 81,697</u>                 | <u>\$ (27,954)</u>     | <u>\$ 53,830</u>   | <u>\$ 43,426</u>   | <u>\$ 97,256</u>                 |

|  | Common<br>Shares | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity<br>Attributable to<br>the Controlling<br>Interest | Noncontrolling<br>Interests in<br>Consolidated<br>Subsidiaries | Total<br>Stockholders'<br>Equity |
|--|------------------|----------------------------------|------------------------|--|--|----------------------------------|
| Balance, January 1, 2018                       | \$ 87            | \$ 81,668                        | \$ (18,291)            | \$ 63,464  | \$ 39,476  | \$ 102,940                       |
| Net loss                                       | -                | -                                | (6,465)                | (6,465)  | (1,632)  | (8,097)                          |
| Stock issued to related parties                | -                | 31                               | -                      | 31   | -  | 31                               |
| Contributions from<br>noncontrolling interests | -                | -                                | -                      | -  | 4,453  | 4,453                            |
| Distributions to<br>noncontrolling interests   | -                | -                                | -                      | -  | (794)  | (794)                            |
| Balance, June 30, 2018                         | <u>\$ 87</u>     | <u>\$ 81,699</u>                 | <u>\$ (24,756)</u>     | <u>\$ 57,030</u>   | <u>\$ 41,503</u>   | <u>\$ 98,533</u>                 |

*See accompanying notes to condensed consolidated financial statements.*

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

|   | Six Months Ended<br>June 30, 2019 | Six Months Ended<br>June 30, 2018 |
|---|-----------------------------------|-----------------------------------|
| <b>Cash flows provided by (used in) operating activities:</b>   | <i>(In thousands)</i>             |                                   |
| Net loss attributable to the Company  | \$ (3,393)                        | \$ (6,465)                        |
| Adjustments to reconcile net loss attributable to the Company to net cash provided by (used in) operating activities: |                                   |                                   |
| Operating distributions from joint ventures   | 2,164                             | 1,334                             |
| Net (income) loss attributable to the noncontrolling interests  | 399                               | (1,632)                           |
| (Income) loss from investment in joint ventures   | (882)                             | 825                               |
| Gain from sale of real estate   | (139)                             | (217)                             |
| Abandonment of future development   | -                                 | 2,522                             |
| Depreciation  | 2,141                             | 2,124                             |
| Amortization  | 38                                | 43                                |
| Interest expense from deferred finance costs  | 62                                | 64                                |
| Changes in assets and liabilities:  |                                   |                                   |
| Restricted cash   | 36                                | -                                 |
| Tenant and other accounts receivable  | 644                               | 297                               |
| Deferred costs and other assets   | (54)                              | (399)                             |
| Accounts payable and other accrued liabilities  | (896)                             | (5,467)                           |
| Prepaid rents and other tenant liabilities  | (147)                             | 17                                |
| <b>Net cash used in operating activities</b>  | <b>(27)</b>                       | <b>(6,954)</b>                    |
| <b>Cash flows provided by (used in) investing activities:</b>   |                                   |                                   |
| Investment in future developments   | (89)                              | (2,597)                           |
| Investment in joint ventures  | (4,497)                           | (7,859)                           |
| Restricted cash   | 911                               | 3,610                             |
| Net proceeds from sale of real estate   | 725                               | 450                               |
| Distributions from joint ventures, return of capital  | 525                               | 589                               |
| Expenditures for real estate  | (710)                             | (2,079)                           |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(3,135)</b>                    | <b>1,426</b>                      |
| <b>Cash flows provided by (used in) financing activities:</b>   |                                   |                                   |
| Distributions to noncontrolling interests   | (764)                             | (794)                             |
| Contributions from noncontrolling interests   | 1,857                             | 4,453                             |
| Retirement of noncontrolling interests  | (18)                              | -                                 |
| Net proceeds from borrowing   | 3,000                             | -                                 |
| Principal payments on mortgages and other debt  | (1,381)                           | (528)                             |
| Stock issued  | -                                 | 31                                |
| <b>Net cash provided by financing activities</b>  | <b>2,694</b>                      | <b>3,162</b>                      |
| <b>Net decrease in cash and cash equivalents</b>  | <b>(468)</b>                      | <b>(2,366)</b>                    |
| <b>Cash and cash equivalents:</b>   |                                   |                                   |
| <b>Beginning of year</b>  | <b>1,398</b>                      | <b>4,003</b>                      |
| <b>End of year</b>  | <b>\$ 930</b>                     | <b>\$ 1,637</b>                   |

*See accompanying notes to condensed consolidated financial statements.*

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

|  | Six Months Ended     | Six Months Ended     |
|--|----------------------|----------------------|
|  | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|  | (In thousands)       |                      |
| Noncash activity related to the disposal of fully depreciated or amortized assets: |                      |                      |
| Building and improvements  | \$56                 | \$18                 |
| Deferred costs   | <u>13</u>            | <u>-</u>             |
|  | <u>\$69</u>          | <u>\$18</u>          |

*See accompanying notes to condensed consolidated financial statements.*



HORIZON GROUP PROPERTIES, INC.  
Notes to Condensed Consolidated Financial Statements  
Six Months Ended June 30, 2019 and 2018  
(*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 June 30, 2019 and December 31, 2018, HGPI owned approximately 87% of the partnership interests (the “Common Units”) of HGP LP. In general, Common Units are exchangeable for shares of Common Stock on a one-for-one basis (or for an equivalent cash amount at HGPI’s election).

The accompanying unaudited condensed consolidated financial statements include the accounts of all majority-owned subsidiaries, and all significant inter-company amounts have been eliminated. Due to the seasonal nature of certain operational activities, among other factors, the results for the interim period ended June 30, 2019 are not necessarily indicative of the results that may be obtained for the full fiscal year.

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include selected information and disclosures for the interim periods. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2018.

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

Note 2 - Summary of Significant Accounting Policies

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

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

Principles of Consolidation

The condensed consolidated financial statements include the accounts of HGPI and all subsidiaries that HGPI controls, including HGP LP. The Company considers itself to control an entity if it is the majority owner of or has voting control over such entity. All significant intercompany balances and transactions have been eliminated in consolidation.

Pre-Development Costs

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

HORIZON GROUP PROPERTIES, INC.  
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previously capitalized are expensed when the project is abandoned or these costs are determined to be non-recoverable.

At June 30, 2019 and December 31, 2018, predevelopment costs classified as Other Assets included projects in Cleveland, OH and Woodstock, GA totaled \$559,000 and \$470,000, respectively.

During March of 2018, the Company decided to cease development of projects in Hartford, CT, and Malaysia. Because of the abandonment of these projects, the Company recognized a loss on abandonment of approximately \$2.5 million for the six months ended June 30, 2018.

#### Restaurant Revenue and Operating Expense

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

#### Revenue Recognition

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

#### Other Revenue

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

#### Income Taxes

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

As of June 30, 2019 and December 31, 2018 and for the periods then ended, the Company did not have a net liability for any unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as interest or general and administrative expense in the statement of operations. For the periods ended June 30, 2019 and 2018, the Company did not incur any interest or penalties.

#### Investments in Joint Ventures

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

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

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nature of these investments, the Company elected the fair value option to more accurately present the Company's portion of the value and changes thereof in the underlying investments. Changes in the fair value of the joint ventures are recorded as a component of income from investment in joint ventures on the consolidated statement of operations.

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

Subsequent Events

The Company has evaluated subsequent events through August 5, 2019, the date the condensed 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, restaurants, and land held for investment owned by the Company and for which the Company consolidates the results of operations and the assets and liabilities as of June 30, 2019.

| <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                              | \$ 8,504                                 | 51.0%                       |
| The Outlet Shoppes at Fremont    | Fremont, IN  | Outlet Retail        | 110,510                              | 6,160                                    | 51.0%                       |
| The Outlet Shoppes at Oshkosh    | Oshkosh, WI  | Outlet Retail        | 270,512                              | 28,343                                   | 51.0%                       |
| Village Green Center             | Huntley, IL  | Retail               | 22,204                               | 3,176                                    | 100.0%                      |
| Johnny Rockets                   | Oshkosh, WI<br>Woodstock, GA<br>Louisville, KY<br>Laredo, TX | Restaurant           | N/A                                  | 1,134                                    | 100.0%                      |
| Border Dogz                      | Laredo, TX   | Restaurant           | N/A                                  | 17                                       | 100.0%                      |
| Stone and Stein                  | Laredo, TX   | Restaurant           | N/A                                  | 303                                      | 100.0%                      |
| Corporate Assets                 | Chicago, IL  | Various              | <u>N/A</u>                           | <u>22</u>                                | 100.0%                      |
|                                  | Total  |                      | <u>577,886</u>                       | <u>\$47,659</u>                          |                             |
|                                  |  |                      | <u>Acres</u>                         |  |                             |
| Land held for Investment         | Fruitport, MI  | Land                 | 6                                    | \$ 156                                   | 100.0%                      |
| Laredo Phase II Land             | Laredo, TX   | Land                 | 2                                    | 2,000                                    | 60.8%                       |
| Ridgewalk Land                   | Woodstock, GA  | Land                 | 107                                  | 10,725                                   | 51.0%                       |
| Land Held for Investment         | Huntley, IL  | Land                 | <u>355</u>                           | <u>20,300</u>                            | 100.0%                      |
|                                  | Total  |                      | <u>470</u>                           | <u>\$ 33,181</u>                         |                             |

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

Note 4 - Investment in Joint Ventures

The following table contains information and the effective ownership percentage attributable to the Company for the joint venture outlet centers in operation or development as of June 30, 2019. In addition, the joint ventures' own out parcels and other land for development.

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

El Paso Entities

The Company owned 97.4% of the preferred interests and 92.8% of the common interests at June 30, 2019 and December 31, 2018 in Horizon El Paso, LLC ("Horizon El Paso"), which owns a 25% joint venture interest in El Paso Outlet Center Holding, LLC ("El Paso Holding"). El Paso Holding owns an entity that owns the outlet shopping center in El Paso, TX (the "El Paso Center"). Horizon El Paso owns a 25% joint venture interest in El Paso Outlet Center II, LLC, which owns Phase II of the shopping center (Phase II). Horizon El Paso owns a 50% joint venture interest in El Paso Outlet Outparcels, LLC that owns several outparcels and ancillary land adjacent to the shopping center (the "Outparcels").

On September 10, 2018, Deutsche Bank refinanced the loans on Phases I and II of the shopping center in the amount of \$75 million. The shopping center secures the loan. The loan, bears interest at 5.103%. Payments of \$407,350 per month are based on a 30-year amortization. The loan matures on October 6, 2028. The principal balance at June 30, 2019 and December 31, 2018, was \$74.3 million and \$74.8 million, respectively.

The Company received management, leasing and similar fees from El Paso Center that totaled \$176,000 and \$210,000 during the three months ended June 30, 2019 and 2018, respectively, and \$364,000 and \$583,000 during the six months ended June 30, 2019 and 2018, respectively.

Summary financial information (stated at 100%) for the El Paso entities as of June 30, 2019 and December 31, 2018 and for the three and six months ended June 30, 2019 and 2018 are as follows (in thousands):

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(unaudited)

|  | As of<br>June 30, 2019 | As of<br>December 31, 2018 |
|--|------------------------|----------------------------|
| <b>Assets</b>                          |                        |                            |
| Real estate - net                      | \$ 88,184              | \$ 89,976                  |
| Cash and cash equivalents              | 617                    | 850                        |
| Restricted cash                        | 1,528                  | 2,743                      |
| Other assets                           | 2,651                  | 2,913                      |
| Total assets                           | \$ 92,980              | \$ 96,482                  |
| <b>Liabilities and members' equity</b> |                        |                            |
| Mortgages and other debt               | \$ 74,282              | \$ 74,823                  |
| Other liabilities                      | 2,277                  | 3,684                      |
| Members' equity                        | 16,421                 | 17,975                     |
| Total liabilities and members' equity  | \$ 92,980              | \$ 96,482                  |

|                                       | Three Months<br>Ended<br>June 30, 2019 | Three Months<br>Ended<br>June 30, 2018 | Six Months<br>Ended<br>June 30, 2019 | Six Months<br>Ended<br>June 30, 2018 |
|---------------------------------------|--|--|--------------------------------------|--------------------------------------|
| <b>Statements of Operations</b>       |  |  |                                      |                                      |
| Revenue                               | \$ 3,668                               | \$ 3,587                               | \$ 7,437                             | \$ 7,334                             |
| Operating expenses                    | 1,425                                  | 1,481                                  | 2,799                                | 2,901                                |
| General and administrative expenses   | 239                                    | 226                                    | 449                                  | 435                                  |
| Depreciation and amortization expense | 1,102                                  | 1,000                                  | 2,117                                | 1,990                                |
| Interest expense                      | 970                                    | 1,186                                  | 1,944                                | 2,362                                |
| Total expenses                        | 3,736                                  | 3,893                                  | 7,309                                | 7,688                                |
| Net income (loss)                     | \$ (68)                                | \$ (306)                               | \$ 128                               | \$ (354)                             |

Gettysburg Entities

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

The mortgage loan for Gettysburg Outlet Center, LP is secured by the shopping center, had an initial balance of \$38.5 million, bears interest at 4.8% and matures in 2025. The mortgage balance was \$37.5 and \$37.8 million at June 30, 2019 and December 31, 2018, respectively.

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The members of the Gettysburg entities accrue a 10% preferred return on capital invested. Cash distributions go first to CBL and PL Skoien, then to the Company and Tom Berlin.

The Company received management, leasing and similar fees from Gettysburg entities that totaled \$62,000 and \$79,000 during the three months ended June 30, 2019 and 2018, respectively, and \$124,000 and \$135,000 during the six months ended June 30, 2019 and 2018, respectively.

Summary financial information (stated at 100%) of the Gettysburg entities as of June 30, 2019 and December 31, 2018 and for the three and six months ended June 30, 2019 and 2018 is as follows (in thousands):

|                           | As of<br>June 30, 2019 | As of<br>December 31, 2018 |
|---------------------------|------------------------|----------------------------|
| <b>Assets</b>             |                        |                            |
| Real estate - net         | \$ 40,319              | \$ 40,685                  |
| Cash and cash equivalents | 274                    | 261                        |
| Restricted cash           | 1,268                  | 879                        |
| Other assets              | 1,289                  | 1,217                      |
| Total assets              | <u>\$ 43,150</u>       | <u>\$ 43,042</u>           |

**Liabilities and members' equity**

|                                       |                  |                  |
|---------------------------------------|------------------|------------------|
| Mortgages and other debt              | \$ 37,455        | \$ 37,762        |
| Other liabilities                     | 924              | 922              |
| Members' equity                       | 4,771            | 4,358            |
| Total liabilities and members' equity | <u>\$ 43,150</u> | <u>\$ 43,042</u> |

|                                       | Three Months<br>Ended<br>June 30, 2019 | Three Months<br>Ended<br>June 30, 2018 | Six Months<br>Ended<br>June 30, 2019 | Six Months<br>Ended<br>June 30, 2018 |
|---------------------------------------|--|--|--------------------------------------|--------------------------------------|
| <b>Statements of Operations</b>       |  |  |                                      |                                      |
| Revenue                               | \$ 2,104                               | \$ 1,499                               | \$ 3,683                             | \$ 3,039                             |
| Operating expenses                    | 551                                    | 579                                    | 1,346                                | 1,228                                |
| General and administrative expenses   | 85                                     | 72                                     | 167                                  | 145                                  |
| Depreciation and amortization expense | 456                                    | 380                                    | 847                                  | 751                                  |
| Interest expense                      | 457                                    | 455                                    | 916                                  | 922                                  |
| Total expenses                        | <u>1,549</u>                           | <u>1,486</u>                           | <u>3,276</u>                         | <u>3,046</u>                         |
| Loss on sale of land                  | 5                                      | -                                      | 5                                    | -                                    |
| Net income (loss)                     | <u>\$ 560</u>                          | <u>\$ 13</u>                           | <u>\$ 412</u>                        | <u>\$ (7)</u>                        |

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Atlanta Entities

On May 11, 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. The Company formed a subsidiary entity, Horizon Atlanta Outlet Shoppes, LLC (Horizon Atlanta) to be CBL’s partner in Atlanta JV. The Company owns 48.3% of the preferred interests and 44.3% of the common interests in Horizon Atlanta, but maintains voting control over Horizon Atlanta. The Atlanta JV is owned 25% by Horizon Atlanta and 75% by CBL. In December of 2013, Horizon Atlanta met return of investment and internal rate of return criteria stipulated in the joint venture agreement; therefore, Horizon Atlanta’s share of future distributions from the Atlanta JV increased from 25% to 35%. The Company is responsible for the leasing and management of the center.

The Atlanta JV purchased approximately 50 acres of land for the project from Ridgewalk Holding, LLC (“Holding”). Ridgewalk Property Investments, LLC (“RPI”) is the managing member of Holding. The Company and CBL then formed Woodstock GA Investments (“WGI”), owned 25% by the Company and 75% by CBL, which lent RPI \$6.0 million. RPI then contributed \$6.0 million to Holding and, together with the proceeds from the sale of the parcel to Atlanta JV, retired a loan secured by the land owned by Holding. In connection with its loan to RPI, WGI acquired an equity interest in RPI that is entitled to 30% of the economic interest in Holding. During 2015, WGI purchased an additional direct interest in Holding and became the managing member of Holding. It was then determined that WGI controlled Holding.

On March 29, 2017, CBL sold their 75% interest in WGI to the Company for a \$1.0 million seller financed note. The note is payable when the south parcel of the Holdings land is sold. After the purchase of CBL’s interest, the Company owns 100% of WGI. Holdings owns approximately 107 acres of vacant land near The Outlet Shoppes at Atlanta that the Company is currently developing. The Company previously accounted for its interest in WGI using the equity method of accounting.

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 \$72.5 million and \$73.2 million at June 30, 2019 and December 31, 2018, respectively

On May 13, 2015 the Atlanta JV closed on a \$6,200,000 construction loan for Atlanta Outlet Shoppes Phase II. The loan carries an initial interest rate of LIBOR plus 2.5%, and matures on December 19, 2019. The loan balance was \$4.5 million and \$4.6 million at June 30, 2019 and December 31, 2018, respectively.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled \$90,000 and \$172,000 for the three months ended June 30, 2019 and 2018, respectively, and \$232,000 and \$303,000 for the six months ended June 30, 2019 and 2018, respectively

Summary financial information (stated at 100%) of the Atlanta entities as of June 30, 2019 and December 31, 2018 and for the three and six months ended June 30, 2019 and 2018 is as follows (in thousands):

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|   | As of<br>June 30, 2019 | As of<br>December 31, 2018 |
|---|------------------------|----------------------------|
| <b>Assets</b>                           |                        |                            |
| Real estate - net                       | \$ 50,059              | \$ 51,734                  |
| Cash and cash equivalents               | 505                    | 1,855                      |
| Restricted cash                         | 459                    | 388                        |
| Other assets                            | 4,056                  | 3,919                      |
| Total assets                            | \$ 55,079              | \$ 57,896                  |
| <b>Liabilities and members' deficit</b> |                        |                            |
| Mortgages and other debt                | \$ 76,981              | \$ 77,808                  |
| Other liabilities                       | 1,058                  | 1,039                      |
| Members' deficit                        | (22,960)               | (20,951)                   |
| Total liabilities and members' equity   | \$ 55,079              | \$ 57,896                  |

|                                       | Three Months<br>Ended<br>June 30, 2019 | Three Months<br>Ended<br>June 30, 2018 | Six Months<br>Ended<br>June 30, 2019 | Six Months<br>Ended<br>June 30, 2018 |
|---------------------------------------|--|--|--------------------------------------|--------------------------------------|
| <b>Statements of Operations</b>       |  |  |                                      |                                      |
| Revenue                               | \$ 3,383                               | \$ 3,416                               | \$ 6,874                             | \$ 7,013                             |
| Operating expenses                    | 858                                    | 767                                    | 1,743                                | 1,636                                |
| General and administrative expenses   | 138                                    | 129                                    | 249                                  | 264                                  |
| Depreciation and amortization expense | 969                                    | 1,150                                  | 1,971                                | 2,304                                |
| Interest expense                      | 973                                    | 995                                    | 1,959                                | 1,991                                |
| Total expenses                        | 2,938                                  | 3,041                                  | 5,922                                | 6,195                                |
| Gain (loss) on sale of land           | 2                                      | -                                      | 2                                    | (1)                                  |
| Net income                            | \$ 447                                 | \$ 375                                 | \$ 954                               | \$ 817                               |

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. The Company formed a subsidiary entity (Horizon Louisville) to be CBL's partner in the Louisville JV. The Company owns 44.7% of the preferred interests and 34.4% of the common interests in Horizon Louisville, but maintains voting control over Horizon Louisville. The Louisville JV is owned 35% by Horizon Louisville and 65% by CBL. 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.



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On November 24, 2014, the Louisville JV obtained a \$77.5 million loan from JP Morgan (the “Louisville Loan”). The proceeds from the Louisville Loan were used to repay the construction loan. The Louisville Loan has a term of 10 years and bears interest at 4.045%. Payments are based on a 30 year amortization. The Louisville Loan is secured by a mortgage on The Outlet Shoppes of the Bluegrass. The loan balance was \$71.0 million and \$71.7 million at June 30, 2019 and December 31, 2018, respectively.

During 2015, the Louisville JV established the Bluegrass Outlet Shoppes II, LLC and closed on an \$11.3 million construction loan to develop additional retail space at the Outlet Shoppes of the Bluegrass. The loan has a term of 60 months and an interest rate of LIBOR plus 2.35%. The loan balance was \$9.4 million and \$9.5 million, at June 30, 2019 and December 31, 2018, respectively.

The Company received management, leasing and similar fees from the Louisville JV that totaled \$117,000 and \$149,000 during the three months ended June 30, 2019 and 2018, respectively, and \$237,000 and \$253,000 during the six months ended June 30, 2019 and 2018, respectively.

Summary financial information (stated at 100%) of the Louisville JV as of June 30, 2019 and December 31, 2018 and for the three and six months ended June 30, 2019 and 2018 is as follows (in thousands):

|   | As of<br>June 30, 2019 | As of<br>December 31, 2018 |
|---|------------------------|----------------------------|
| <b>Assets</b>                           |                        |                            |
| Real estate - net                       | \$ 59,952              | \$ 62,459                  |
| Cash and cash equivalents               | 1,429                  | 1,356                      |
| Restricted cash                         | 922                    | 1,658                      |
| Other assets                            | 4,198                  | 4,302                      |
| Total assets                            | <u>\$ 66,501</u>       | <u>\$ 69,775</u>           |
| <b>Liabilities and members' deficit</b> |                        |                            |
| Mortgages and other debt                | \$ 80,313              | \$ 81,221                  |
| Other liabilities                       | 1,072                  | 920                        |
| Members' deficit                        | (14,884)               | (12,366)                   |
| Total liabilities and members' equity   | <u>\$ 66,501</u>       | <u>\$ 69,775</u>           |

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|                                       | Three Months<br>Ended<br>June 30, 2019 | Three Months<br>Ended<br>June 30, 2018 | Six Months<br>Ended<br>June 30, 2019 | Six Months<br>Ended<br>June 30, 2018 |
|---------------------------------------|--|--|--------------------------------------|--------------------------------------|
| <b>Statements of Operations</b>       |  |  |                                      |                                      |
| Revenue                               | \$ 3,415                               | \$ 3,466                               | \$ 6,458                             | \$ 7,105                             |
| Operating expenses                    | 847                                    | 784                                    | 1,550                                | 1,547                                |
| General and administrative expenses   | 147                                    | 141                                    | 263                                  | 286                                  |
| Depreciation and amortization expense | 1,779                                  | 1,293                                  | 3,126                                | 2,580                                |
| Interest expense                      | 886                                    | 894                                    | 1,777                                | 1,781                                |
| Total expenses                        | 3,659                                  | 3,112                                  | 6,716                                | 6,194                                |
| Loss on sale of land                  | -                                      | -                                      | (7)                                  | -                                    |
| Net income (loss)                     | \$ (244)                               | \$ 354                                 | \$ (265)                             | \$ 911                               |

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. The venture is owned 65% by CBL and 35% by Horizon El Portal a subsidiary which is 60.8% owned by the Company. Lawrence Friedman is a Class B member of the Laredo JV and will participate in distributions after certain internal rate of return hurdles are met. The outlet center opened in March of 2017.

On May 13, 2016, Laredo JV closed on a construction loan to finance the construction of the center. The loan has a maximum principal balance of \$91.3 million, a 36-month term and one 24-month extension option. Interest accrues on the loan at LIBOR plus 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 balance was \$42.9 million and \$54.5 million, at June 30, 2019 and December 31, 2018, respectively.

The loan contains certain provisions requiring principal pay-downs subject to certain conditions. As a result, on May 31, 2018, the Company and its partner, CBL, made a \$22.4 million principal payment through capital contribution on the construction loan. Horizon El Portal's share of the payment was \$7.9 million. In December of 2018, an additional \$5 million principal payment was made, which was funded through capital contribution. Horizon El Portal's share of the capital contribution was \$1.7 million. In May of 2019, the loan was extended through May 2021. As a condition of the extension the Company 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.

The Company received management, leasing, and similar fees from the Laredo JV that totaled \$59,000 and \$49,000 for the three months ended June 30, 2019 and 2018, respectively, and \$110,000 and \$102,000 for the six months ended June 30, 2019 and 2018, respectively.

Summary financial information (stated at 100%) of the Laredo JV as of June 30, 2019 and December 31, 2018 and for the three and six months ended June 30, 2019 and 2018 is as follows (in thousands):

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|  | As of<br>June 30, 2019 | As of<br>December 31, 2018 |
|--|------------------------|----------------------------|
| <b>Assets</b>                          |                        |                            |
| Real estate - net                      | \$ 101,077             | \$ 102,942                 |
| Cash and cash equivalents              | 170                    | 378                        |
| Restricted cash                        | 430                    | 465                        |
| Other assets                           | 3,652                  | 3,103                      |
| Total assets                           | \$ 105,329             | \$ 106,888                 |
| <b>Liabilities and members' equity</b> |                        |                            |
| Mortgages and other debt               | \$ 42,850              | \$ 54,550                  |
| Other liabilities                      | 2,930                  | 3,138                      |
| Members' equity                        | 59,549                 | 49,200                     |
| Total liabilities and members' equity  | \$ 105,329             | \$ 106,888                 |

|                                       | Three Months<br>Ended<br>June 30, 2019 | Three Months<br>Ended<br>June 30, 2018 | Six Months<br>Ended<br>June 30, 2019 | Six Months<br>Ended<br>June 30, 2018 |
|---------------------------------------|--|--|--------------------------------------|--------------------------------------|
| <b>Statements of Operations</b>       |  |  |                                      |                                      |
| Revenue                               | \$ 2,361                               | \$ 2,181                               | \$ 4,756                             | \$ 4,411                             |
| Operating expenses                    | 1,148                                  | 1,224                                  | 2,306                                | 2,454                                |
| General and administrative expenses   | 90                                     | 115                                    | 170                                  | 191                                  |
| Depreciation and amortization expense | 1,349                                  | 1,316                                  | 2,683                                | 2,546                                |
| Interest expense                      | 790                                    | 1,673                                  | 1,687                                | 2,903                                |
| Total expenses                        | 3,377                                  | 4,328                                  | 6,846                                | 8,094                                |
| Net loss                              | \$ (1,016)                             | \$ (2,147)                             | \$ (2,090)                           | \$ (3,683)                           |

**Note 5 – Commitments**

The Company has outstanding commitments for construction costs and tenant allowances on leases signed (which amounts become payable when the spaces are delivered to the tenants) at June 30, 2019 in the amount of \$768,000 which are not reflected on the condensed consolidated balance sheet as of June 30, 2019. These amounts include the commitments for the pre-development projects (see Note 3). These capital expenditures are expected to be paid during 2019 and 2020, and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

**Note 6 – Mortgages and Other Debt**

Total secured indebtedness was \$64.2 million and \$62.5 million at June 30, 2019 and December 31, 2018, respectively. Cash paid for interest for the six months ended June 30, 2019 and 2018 was \$1.5 million and \$1.4 million, respectively.

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The Company's ability to secure new loans is limited by the fact that most of the Company's real estate assets are currently pledged as collateral for its current loans. The Company will pay the scheduled principal amortization in the normal course of business during 2019.

Note 7 - Related Party Transactions

At June 30, 2019 and December 31, 2018, another affiliate of Howard Amster owned 49% of the interests in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; and Oshkosh, WI.

At June 30, 2019 and December 31, 2018, PL Skoien, owns (1) 12.6% of the interests in the entities that own the outlet center and related assets in Gettysburg, PA, (2) 46.4% of Horizon Atlanta, (3) 47.54% of Horizon Louisville and (4) 14.7% of Horizon El Portal, LLC.

At June 30, 2019 and December 31, 2018, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At June 30, 2019 and December 31, 2018, 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 June 30, 2019 and December 31, 2018, the Net Profits Interest liability approximated \$8.0 million and \$8.2 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 Rumptz and Andrew Pelmoter, respectively; (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and James Harris, respectively, (4) Horizon Louisville, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and Harris, respectively, and (5) Horizon El Portal, - 1.52%, 1.52%, 1.22% and .61% to Messers Skoien, Pelmoter, Rumptz and Harris, respectively.

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

During 2019, Pleasant Lake Apts. LP, an affiliate of Howard Amster loaned the Company \$3.0 million. In conjunction with the loan the Company issued warrants to Pleasant Lake Apts LP up to 450,000 limited partnership units at a price of \$3.00 per unit.