

Consolidated Financial Statements

Horizon Group Properties, Inc.

For the years ended December 31, 2021 and 2020

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Independent Auditors' Report

Board of Directors
Horizon Group Properties, Inc. and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Horizon Group Properties, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Group Properties, Inc. and Subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Horizon Group Properties, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Horizon Group Properties, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Horizon Group Properties, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Horizon Group Properties, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Cohen & Company Ltd.

Akron, Ohio
March 29, 2022

HORIZON GROUP PROPERTIES, INC.
Consolidated Balance Sheets

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	<i>(In thousands)</i>	
ASSETS		
Real estate		
Land	\$ 565	\$ 565
Buildings and improvements	3,154	3,154
Less accumulated depreciation	<u>(950)</u>	<u>(756)</u>
	2,769	2,963
Construction in progress	3	30
Land held for investment	<u>28,606</u>	<u>28,990</u>
Total net real estate	31,378	31,983
Investment in and advances to joint ventures	13,757	15,661
Investment in and advances to joint ventures, at fair value	50,912	49,780
Cash and cash equivalents	1,464	127
Restricted cash	261	639
Tenant and other accounts receivable, net	1,302	294
Deferred costs, (net of accumulated amortization of \$60 and \$58, respectively)	116	22
Other assets	450	1,033
Assets from discontinued operations	-	41,735
Total assets	<u><u>\$ 99,640</u></u>	<u><u>\$ 141,274</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage and other debt (net of unamortized debt issuance costs of \$179 and \$219, respectively)	\$ 8,308	\$ 10,942
Accounts payable and other accrued expenses	10,218	10,310
Prepaid rents and other tenant liabilities	148	205
Investment in and commitments to joint ventures	10,918	-
Liabilities from discontinued operations	<u>-</u>	<u>53,764</u>
Total liabilities	<u>29,592</u>	<u>75,221</u>
Commitments and contingencies		
Stockholders' equity:		
Common shares (\$.01 par value, 50,000 shares authorized, 9,799 and 8,742 shares issued and outstanding, respectively)	98	98
Additional paid-in capital	79,295	79,295
Accumulated deficit	<u>(46,377)</u>	<u>(48,883)</u>
Total stockholders' equity attributable to the controlling interest	33,016	30,510
Noncontrolling interests in consolidated subsidiaries	<u>37,032</u>	<u>35,543</u>
Total stockholders' equity	<u>70,048</u>	<u>66,053</u>
Total liabilities and stockholders' equity	<u><u>\$ 99,640</u></u>	<u><u>\$ 141,274</u></u>

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Operations

	Year Ended December 31, 2021	Year Ended December 31, 2020
	<i>(In thousands)</i>	
REVENUE		
Base rent	\$ 394	\$ 411
Expense recoveries	109	120
Management, development, and leasing fees	1,891	1,207
Other	567	11
Total revenue	<u>2,961</u>	<u>1,749</u>
EXPENSES		
Property operating	355	343
Real estate taxes	74	99
Other operating	(3)	(18)
Depreciation and amortization	205	204
Provision for impairment	-	1,100
General and administrative	4,732	4,527
Interest	403	533
Total expenses	<u>5,766</u>	<u>6,788</u>
OTHER INCOME AND EXPENSE		
Loss from investment in joint ventures	(9,233)	(22,363)
Loss on abandonment of assets	(665)	-
Employee retention credits	1,858	-
Gain on sale of real estate	1,835	1,699
Gain on extinguishment of debt	2,699	-
Total other income and expense	<u>(3,506)</u>	<u>(20,664)</u>
DISCONTINUED OPERATIONS		
Net income (loss) from operations of the discontinued components, including gain (loss) on the disposal of \$12,742 and (\$1,216), respectively	<u>11,838</u>	<u>(4,446)</u>
Consolidated net income (loss) before income tax	5,527	(30,149)
Income tax benefit	<u>-</u>	<u>221</u>
Consolidated net income (loss)	5,527	(29,928)
Less net loss (income) attributable to the noncontrolling interests	<u>(3,021)</u>	<u>10,783</u>
Net income (loss) attributable to the Company	<u>\$ 2,506</u>	<u>\$ (19,145)</u>

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2021	\$ 98	\$ 79,295	\$ (48,883)	\$ 30,510	\$ 35,543	\$ 66,053
Net income	-	-	2,506	2,506	3,021	5,527
Contributions from noncontrolling interests	-	-	-	-	3	3
Distributions to noncontrolling interests	-	-	-	-	(1,535)	(1,535)
Balance, December 31, 2021	<u>\$ 98</u>	<u>\$ 79,295</u>	<u>\$ (46,377)</u>	<u>\$ 33,016</u>	<u>\$ 37,032</u>	<u>\$ 70,048</u>

	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2020	\$ 87	\$ 81,976	\$ (29,738)	\$ 52,325	\$ 42,306	\$ 94,631
Net loss	-	-	(19,145)	(19,145)	(10,783)	(29,928)
Transfer of noncontrolling interests (See Note 9)	11	(2,681)	-	(2,670)	5,270	2,600
Contributions from noncontrolling interests	-	-	-	-	1,267	1,267
Distributions to noncontrolling interests	-	-	-	-	(2,517)	(2,517)
Balance, December 31, 2020	<u>\$ 98</u>	<u>\$ 79,295</u>	<u>\$ (48,883)</u>	<u>\$ 30,510</u>	<u>\$ 35,543</u>	<u>\$ 66,053</u>

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Cash Flows

	Year Ended December 31, 2021	Year Ended December 31, 2020
	<i>(In thousands)</i>	
Cash flows used in operating activities:		
Net income (loss)	\$ 5,527	\$ (29,928)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Operating distributions from joint ventures	1,442	1,906
Loss from investment in joint ventures	9,233	22,363
Gain from sale of real estate	(1,835)	(1,699)
(Gain) loss on disposal of discontinued operations	(12,742)	1,216
Gain on extinguishment of debt	(2,699)	-
Abandonment of future development	665	-
Depreciation	194	190
Amortization	2	10
Provision for impairment	-	1,100
Interest expense from deferred finance costs	88	44
Changes in assets and liabilities:		
Tenant and other accounts receivable, net	(1,008)	965
Deferred costs, net, and other assets	(158)	(145)
Accounts payable and other accrued expenses	(92)	(283)
Prepaid rents and other tenant liabilities	(57)	(145)
Assets and liabilities from discontinued operations	1,433	3,918
Net cash used in operating activities	<u>(7)</u>	<u>(488)</u>
Cash flows provided by investing activities:		
Investment in future developments	(20)	(17)
Investment in joint ventures	-	(351)
Net proceeds from sale of real estate	2,413	2,036
Distributions from joint ventures, return of capital	1,306	500
Contributions to joint ventures	(291)	(989)
Expenditures for real estate	(167)	(525)
Net cash provided by investing activities	<u>3,241</u>	<u>654</u>
Cash flows used in financing activities:		
Distributions to noncontrolling interests	(1,535)	(2,517)
Contributions from noncontrolling interests	3	1,267
Net proceeds from borrowing	1,405	1,667
Principal payments on mortgages and other debt	(1,428)	(771)
Principal payments on mortgages from discontinued operations	(720)	(649)
Net cash used in financing activities	<u>(2,275)</u>	<u>(1,003)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	959	(837)
Cash, cash equivalents, and restricted cash:		
Beginning of year	766	1,603
End of year	<u>\$ 1,725</u>	<u>\$ 766</u>

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

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
	<i>(In thousands)</i>	
Reconciliation from consolidated statements of cash flows to consolidated balance sheets:		
Cash and cash equivalents	\$ 1,464	\$ 127
Restricted cash	261	639
Cash, cash equivalents, and restricted cash, End of year	\$ 1,725	\$ 766
Supplemental information:		
Noncash activity to related party note receivable	\$ -	\$ (304)
Noncash activity to related party note payable	\$ -	\$ 304
Noncash activity related to the stock issued for the purchase of noncontrolling interest in consolidated entities and joint ventures:		
Noncontrolling interest in consolidated subsidiaries	\$ -	\$ (5,270)
Investment in joint ventures	-	2,600
Common shares	-	(11)
Additional paid-in capital	-	2,681
	\$ -	\$ -

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

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

Note 1 - Organization and Principles of Consolidation

Horizon Group Properties, Inc. (“HGPI” or, together with its subsidiaries “HGP” or the “Company”) is a Maryland corporation that was established on June 15, 1998. The Company conducts operations primarily through a subsidiary limited partnership, Horizon Group Properties, L.P. (“HGP LP”) of which HGPI is the sole general partner. As of December 31, 2021 and 2020, HGPI owned approximately 87% of the partnership interests (the “Common Units”) of HGP LP. In general, Common Units are exchangeable for shares of Common Stock on a one-for-one basis (or for an equivalent cash amount at HGPI’s election).

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

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Investment in Real Estate

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

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

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

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

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

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

Real Estate and Depreciation

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

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

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

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

Impairment of Land

Due to the impact of the COVID-19 pandemic on our operating results and uncertainties associated with the recovery from the pandemic in future periods, we determined that it was appropriate to test long-lived assets during 2020 for impairment. During 2020, the Phase II land located in Laredo, Texas was deemed to be impaired and was written down to fair value. Fair value was determined based on an appraisal of the Outlet Shoppes at Laredo (see Note 4). The carrying value exceeded the fair value by \$1.1 million which was recorded as an impairment loss during the year ended December 31, 2020. No such impairment considerations were deemed necessary during 2021.

Pre-Development Costs

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

At December 31, 2021 and 2020, pre-development costs classified as Other Assets included projects in Cleveland, Ohio and totaled \$20,000 and \$664,000, respectively. During 2021, the Company determined that the Cleveland development was no longer probable and wrote off \$665,000 of pre-development costs.

Reclassifications

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

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

Cash Equivalents

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

Restricted Cash

Restricted Cash consists of amounts deposited in accounts with the Company's primary lenders in connection with certain loans and funds escrowed to be used for the development of the Ridgewalk property in Woodstock, GA (see Notes 4 & 7). At December 31, 2021 and 2020, the escrow accounts related to the Company's primary lenders included approximately \$185,000 and \$206,000 in real estate tax and insurance escrows, respectively, and approximately \$70,000 for cash collateral accounts. At December 31, 2021 and 2020, the Ridgewalk development escrow totaled \$6,000 and \$363,000, respectively.

Tenant Accounts Receivable

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

At December 31, 2021 and 2020, total tenant accounts receivable is reflected net of reserves of \$6,000 and \$36,000, respectively.

Forgivable Loans and Employee Retention Credit Funds

Absent specific guidance in GAAP, the Company accounts for forgivable loans as debt in accordance with ASC 470 and accrues interest in accordance with the interest method under ASC 835-30. Accordingly, proceeds from such loans are recorded as a liability until either the loans are in part or wholly forgiven and the debt has been legally released or the loan is paid off. The Company accounts for Employee Retention Credit Funds as a conditional contribution in accordance with ASC 958-605. Credits are earned and recognized when conditions are substantially met and qualifying expenses are incurred. During 2021, approximately \$1.9 million in credits were earned and are included in other income on the consolidated statement of operations.

Deferred Costs

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

Revenue Recognition

Revenue from Leasing Arrangements

The Company's revenues primarily result from revenue from leasing arrangements that fall under Topic 840, *Leases*. Leases with tenants are accounted for as operating leases. Lease revenues included minimum rent, percentage rent, other rents and reimbursements from tenants for real estate taxes, insurance, CAM and other operating expenses as provided in these lease agreements. Minimum annual rentals are recognized on a straight-line basis over the terms of the respective leases. As a result of recording rental revenue on a straight-line basis, tenant accounts receivable include \$11,000 and \$15,000 as of December 31, 2021 and 2020, respectively, which is expected to be collected over the remaining lives of the leases. Rents that represent basic occupancy costs, including fixed amounts and amounts computed as a function of sales, are classified as base rent. Amounts which may become payable in addition to base rent and which are computed as a function of sales in excess of certain thresholds are classified as percentage rents and are accrued after the reported tenant sales exceed the applicable thresholds. Expense recoveries based on common area maintenance expenses and certain other expenses are accrued in the period in which the related expense is incurred.

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

Management, Development and Leasing Fees

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

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

Income Taxes

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

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

As of December 31, 2021 and 2020, and for the years then ended, the Company did not have a net liability for any unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as interest or general and administrative expense in the consolidated statements of operations. During 2021 and 2020, the Company did not incur any interest or penalties.

Investments in Joint Ventures

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

The Company elected the fair value option for its investments in Horizon Atlanta and Horizon Louisville (see Note 4). Due to the nature of these investments, the Company elected the fair value option to more accurately present the Company's portion of the value and changes thereof in the underlying investments. Changes in the fair value of the joint ventures are recorded as a component of income from investment in joint ventures on the consolidated statements of operations.

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

The Company evaluates the recoverability of long-lived assets, including investments in joint ventures, whenever events or changes in circumstances may indicate that the carrying value of the assets are not recoverable or are less than fair value. Due to the impact of the COVID-19 pandemic on our operating results and uncertainties associated with the recovery from the pandemic in future periods, we determined that it was appropriate to test long-lived assets, for impairment, as of December 31, 2021 and 2020.

HORIZON GROUP PROPERTIES, INC.
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As a result of the test performed, impairment charges of \$18.4 million were recorded related to the investment in Laredo (See Note 4) during 2020 and \$9.9 million to the investment in Gettysburg (See Note 4) during 2021.

Subsequent Events

Management has evaluated subsequent events through March 30, 2022, the date the consolidated financial statements were available to be issued.

Note 3 - Investment in Real Estate and Restaurants

The following table contains information on the operating properties and land held for investment owned by the Company and for which the Company consolidates the results of operations and the assets and liabilities as of December 31, 2021.

<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>
Village Green Center	Huntley, IL	Retail	22,204	\$2,754	100.00%
Corporate Office	Chicago, IL	Various	<u>N/A</u>	<u>15</u>	100.00%
	Total		<u>22,204</u>	<u>\$2,769</u>	
			<u>Acres</u>		
Laredo Phase II Land	Laredo, TX	Land	2	\$ 900	60.80%
Land held for Investment	Fruitport, MI	Land	6	156	100.00%
Ridgewalk Land	Woodstock, GA	Land	81	6,992	100.00%
Land Held for Investment	Huntley, IL	Land	<u>355</u>	<u>20,558</u>	100.00%
	Total		<u>444</u>	<u>\$ 28,606</u>	

The portion of the net income or loss of HGPI's subsidiaries owned by parties other than HGPI is reported as Net income or loss attributable to the noncontrolling interests on the Company's consolidated statements of operations and such parties' portion of the net equity in such subsidiaries is reported on the Company's consolidated balance sheets as Noncontrolling interests in consolidated subsidiaries.

Note 4 - Investment in Joint Ventures

The following table contains information and the effective ownership percentage attributable to the Company for the joint venture outlet centers in operation or development as of December 31, 2021. In addition, the joint ventures' own out parcels and other land for development.

<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Leasable Area (Sq. Ft.)</u>	<u>Ownership Percentage</u>
The Outlet Shoppes at El Paso	El Paso, TX	Outlet Retail	433,045	30.31%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail	249,937	48.90%
The Outlet Shoppes at Atlanta	Woodstock, GA	Outlet Retail	413,969	22.07%
The Outlet Shoppes of the Bluegrass	Louisville, KY	Outlet Retail	428,060	30.78%
The Outlet Shoppes at Laredo	Laredo, TX	Outlet Retail	<u>357,866</u>	21.30%
	Total		<u>1,882,877</u>	

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

El Paso Entities

During 2012, the Company sold a portion of its interest in El Paso Outlet Holdings, LLC (“El Paso Holding”) to an affiliate of CBL & Associates Properties, Inc. (“CBL”) for the outlet shopping mall in El Paso, Texas. El Paso Holding owns an entity that owns the outlet shopping center in El Paso, TX (“the El Paso Center”). During 2014, additional retail space owned by El Paso Outlet Center II Expansion, LLC, was developed at the El Paso Center. El Paso Outlet Center II Expansion is 100% owned by El Paso Outlet Center II, LLC (“El Paso II”). At December 31, 2021 and 2020, El Paso Holding was owned 50% by CBL, 25% by Horizon El Paso, LLC (“Horizon El Paso”), 17.625% by Pleasant Lake Apts., LP (“PLA”), an entity owned by Howard Amster, majority shareholder and director of the Company, 5.9% by the Company, and 1.495% by Pleasant Lake Skoien Investments, LLC (“PL Skoien”), an entity owner by Howard Amster and Gary Skoien, the Chairman of the Board, Chief Executive Officer (“CEO”), President, and a shareholder of the Company.

On September 10, 2018, El Paso Holding and El Paso II refinanced Phase I and Phase II of the shopping center with the proceeds of a \$75 million loan originated by Deutsche Bank. In conjunction with the refinancing, each of El Paso Holding and El Paso II contributed its interest in Phase I and Phase II, respectively, to El Paso Outlet Center CMBS, LLC (“El Paso CMBS”). El Paso CMBS is owned by an entity that is owned by El Paso Holding. Phase I and Phase II of the shopping center secure the loan. The annual interest rate is 5.103%. Payments are \$407,350 per month, based on a 30-year amortization. The loan matures on October 6, 2028. The principal balance at December 31, 2021 and 2020, was \$71.3 million and \$72.6 million, respectively. On November 2, 2020, an affiliate of CBL, the guarantor entity of the loan, filed chapter eleven bankruptcy, which is a technical event of default under the loan agreement. The lender has all the default remedies specified in the loan documents, including the ability to foreclose on the property. CBL has emerged from bankruptcy. CBL and the Company executed a limited default waiver agreement on December 23, 2021 waiving the default. As a result of the event of default, default interest was accrued but not paid since the date of the bankruptcy filing but not required to be paid as a condition of the waiver agreement. At December 31, 2020, El Paso CMBS accrued default interest of \$595,000 which was reversed and an offset to interest expense in 2021.

El Paso Outlet Outparcels, LLC (the “Outparcels”) owns several outparcels adjacent to The Outlet Shoppes at El Paso. At December 31, 2021 and 2020, Outparcels was owned 50% by Horizon El Paso, 33.3333% by CBL, 11.75% by PLA, and 4.9167% by PL Skoien.

El Paso Outlet Outparcels II, LLC (the “Outparcels II”), formed in 2019, owns ancillary land adjacent to the shopping center. At December 31, 2021 and 2020, Outparcels II was owned 50% by CBL and 50% by Horizon El Paso.

At December 31, 2021 and 2020, the Company owned 97.4% of the preferred interests and 92.8% of the common interest in Horizon El Paso.

As of December 31, 2021 and 2020, the Company’s investment in the entities that own The Outlet Shoppes at El Paso, Outparcels and Outparcels II exceeded its proportional share of the underlying equity as reflected in the entities financial statements by approximately \$10.9 million and \$9.6 million, respectively. Such difference is primarily related to the increased value in real estate and is being amortized over a period of 5 to 30 years.

The Company received management, leasing and similar fees from El Paso Center that totaled \$701,000 and \$601,000 million during the years ended December 31, 2021 and 2020, respectively.

Summary financial information (stated at 100%) for the El Paso entities as of December 31, 2021 and 2020, and for the years ended December 31, 2021 and 2020, are as follows (in thousands):

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	As of December 31, 2021	As of December 31, 2020
Assets		
Real estate - net	\$ 79,311	\$ 83,240
Cash and cash equivalents	656	1,662
Restricted cash	3,450	2,934
Other assets	2,242	2,081
Total assets	<u>\$ 85,659</u>	<u>\$ 89,917</u>
Liabilities and members' equity		
Mortgages and other debt	\$ 71,362	\$ 72,575
Other liabilities	3,460	4,257
Members' equity	10,837	13,085
Total liabilities and members' equity	<u>\$ 85,659</u>	<u>\$ 89,917</u>

	Year Ended December 31, 2021	Year Ended December 31, 2020
Statements of Operations		
Revenue	<u>\$ 14,528</u>	<u>\$ 13,423</u>
Operating expenses	5,123	5,786
General and administrative expenses	933	802
Depreciation and amortization expense	3,907	4,242
Interest expense	3,168	4,418
Total expenses	<u>13,131</u>	<u>15,248</u>
Gain (loss) on sale of assets	206	(1)
Net income (loss)	<u>\$ 1,603</u>	<u>\$ (1,826)</u>

Gettysburg Entities

During 2012, an entity owned by an affiliate of CBL and an affiliate of Howard Amster and Gary Skoien converted a mezzanine loan into equity ownership in Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the "Gettysburg entities"). At December 31, 2021 and 2020, the Gettysburg entities are owned 50% by CBL, 48.9% by the Company, and 1.1% by other entities. Gettysburg Outlet Center Holding, LLC, owns Gettysburg Outlet Center, LP, which owns the shopping center. Gettysburg Outlet Center LLC owns vacant land around the shopping center. The members of the Gettysburg entities accrue a 10% preferred return on capital invested.

The mortgage loan for Gettysburg Outlet Center, LP is secured by the shopping center, had an initial balance of \$38.5 million, bears interest at 4.8% and matures in 2025. On August 17, 2020, in response to the COVID-19 outbreak, the lender consented to a deferred principal period commencing with the July 2020 payment date through the December 2020 payment date, with the deferred principal to be repaid during 2021. The mortgage balance was \$35.8 and \$36.7 million at December 31, 2021 and 2020, respectively. On November 2, 2020, an affiliate of CBL, one of the guarantors of the loan, filed chapter eleven bankruptcy, which is a technical event of default under the loan agreement. The Company is also a guarantor of the loan. The lender has all the default remedies specified in the loan documents, including the ability to foreclose on the property and seek payment of any shortfall from the

HORIZON GROUP PROPERTIES, INC.
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guarantors. CBL has emerged from bankruptcy. CBL and the Company are currently negotiating a default waiver agreement. Default interest has been accrued but not paid since the date of the bankruptcy filing. At December 31, 2021 and 2020, the Gettysburg entities have accrued default interest of \$2.1 million and \$306,000, respectively.

During 2020 and 2021, the property failed to meet the Debt Service Coverage Ratio which triggers a Sweep Event Period. The Lender has provided notice of the commencement of a Sweep Event Period. During a Sweep Event Period, the borrower is required to establish a Clearing Account under the control of the Lender.

During 2021, the Outlet Shoppes at Gettysburg was deemed to be impaired and was written down to the fair value. Fair value was determined based on a recent appraisal that valued the property at \$16.7 million. The carrying value exceed the fair value by \$20.5 million which was recorded as an impairment loss during the year ended December 31, 2020.

The Company earned management, leasing, and similar fees from the Gettysburg Entities that totaled \$67,000 and \$177,000 during the years ended December 31, 2021 and 2020, respectively. During 2020, the Company evaluated the collectability of accrued management fees and determined these were not collectible as of December 31, 2020. As a result, the Company wrote off the accrued management fees of \$609,000 and will no longer accrue those fees going forward. The Company continues to earn leasing fees.

Summary financial information (stated at 100%) of the Gettysburg entities as of December 31, 2021 and 2020, and for the years ended December 31, 2021 and 2020, are as follows (in thousands):

	As of December 31, 2021	As of December 31, 2020
Assets		
Real estate - net	\$ 12,685	\$ 38,300
Cash and cash equivalents	8	442
Restricted cash	1,146	847
Other assets	5,427	1,205
Total assets	<u>\$ 19,266</u>	<u>\$ 40,794</u>
Liabilities and members' equity (deficit)		
Mortgages and other debt	\$ 35,804	\$ 36,774
Other liabilities	4,384	1,426
Members' equity (deficit)	(20,922)	2,594
Total liabilities and members' equity	<u>\$ 19,266</u>	<u>\$ 40,794</u>

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
Statements of Operations		
Revenue	\$ 4,497	\$ 4,891
Operating expenses	2,652	2,350
General and administrative expenses	303	267
Depreciation and amortization expense	1,549	1,493
Provision for impairment	20,491	-
Interest expense	3,617	2,148
Total expenses	28,612	6,258
Net loss	\$ (24,115)	\$ (1,367)

Atlanta Entities

During 2012, the Company entered into a joint venture (the “Atlanta JV”) with an affiliate of CBL to develop The Outlet Shoppes at Atlanta in Woodstock, Georgia. At December 31, 2021 and 2020, the Atlanta JV was owned 50% by CBL, 35% by Horizon Atlanta Outlet Shoppes, LLC (“Horizon Atlanta”), 7.611% by PLA, and 7.389% by PL Skoien. At December 31, 2021 and 2020, the Company owned 48.3% of the preferred interests and 44.3% of the common interests in Horizon Atlanta, but maintains voting control over Horizon Atlanta. The Company is responsible for the leasing and management of the center.

On October 11, 2013, the Atlanta JV obtained an \$80.0 million loan from an affiliate of Goldman Sachs (the “Atlanta Loan”). The Atlanta Loan has a term of 10 years and bears interest at 4.9%. Payments are based on a 30-year amortization. The Atlanta Loan is secured by a mortgage on The Outlet Shoppes at Atlanta and had a balance of \$68.4 million and \$70.1 million at December 31, 2021 and 2020, respectively.

On May 13, 2015, the Atlanta JV closed on a \$6,200,000 construction loan for Atlanta Outlet Shoppes Phase II. The loan carries an initial interest rate of LIBOR plus 2.5%, and matured on February 28, 2020, extended from December 19, 2019. On February 6, 2020, this loan was refinanced with the proceeds of a \$4,680,000 loan from Cadence Bank, N.A. The loan carries an interest rate of LIBOR plus 2.5%, payments based on a 25-year amortization and matures on November 5, 2023. On April 6, 2020, the loan was amended in response to the COVID-19 outbreak to include a deferred payment period including principal and interest from April 10, 2020 through June 10, 2020, with deferred interest amounts added to the outstanding principal balance of the loan and due at maturity. The loan balance was \$4.5 million and \$4.6 million at December 31, 2021 and 2020, respectively.

On November 2, 2020, an affiliate of CBL, the guarantor entity of the loans, filed chapter eleven bankruptcy, which is a technical default under the loan agreements. The lender has all the default remedies specified in the loan documents, including the ability to foreclose on the property. CBL has emerged from bankruptcy. CBL and the Company executed a forbearance and loan modification agreement on February 15, 2022 waiving the default. Because of the event of default, default interest was accrued but not paid since the date of the bankruptcy filing but not required to be paid as a condition of the modification agreement. Default interest has been accrued but not paid since the date of the bankruptcy filing. At December 31, 2021 and 2020, the Atlanta entities have accrued default interest of \$2.4 million and \$383,000, respectively which was reversed and an offset to interest expense in 2022.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled \$463,000 and \$465,000 for the years ended December 31, 2021 and 2020, respectively.

Summary financial information (stated at 100%) of the Atlanta entities as of December 31, 2021 and 2020, for the years ended December 31, 2021 and 2020 are as follows (in thousands):

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	As of December 31, 2021	As of December 31, 2020
Assets		
Real estate - net	\$ 42,886	\$ 45,280
Cash and cash equivalents	1,605	1,008
Restricted cash	365	552
Other assets	2,657	3,290
Total assets	<u>\$ 47,513</u>	<u>\$ 50,130</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 72,846	\$ 74,675
Other liabilities	3,459	1,299
Members' deficit	(28,792)	(25,844)
Total liabilities and members' deficit	<u>\$ 47,513</u>	<u>\$ 50,130</u>
	Year Ended December 31, 2021	Year Ended December 31, 2020
Statements of Operations		
Revenue	<u>\$ 13,181</u>	<u>\$ 12,017</u>
Operating expenses	2,956	3,977
General and administrative expenses	674	505
Depreciation and amortization expense	3,243	4,243
Interest expense	5,699	4,149
Total expenses	<u>12,572</u>	<u>12,874</u>
Loss on sale of assets	-	(1)
Net income (loss)	<u>\$ 609</u>	<u>\$ (858)</u>

Bluegrass Entities

During 2013, the Company entered into a joint venture (the "Louisville JV") with an affiliate of CBL to develop The Outlet Shoppes of the Bluegrass in Louisville, Kentucky. At December 31, 2021 and 2020, the Louisville JV was owned 65% by CBL and 35% by Horizon Louisville Outlets, LLC ("Horizon Louisville"). At December 31, 2021 and 2020, the Company owns 44.7% of the preferred interests and 34.4% of the common interests in Horizon Louisville, but maintains voting control over Horizon Louisville.

In May of 2013, and again in December of 2014, Horizon Louisville met certain return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL; therefore, the Company's share of future distributions from the Louisville JV increased from 35% to 50%. The Company is responsible for the leasing and management of the center.

On November 24, 2014, the Louisville JV obtained a \$77.5 million loan from JP Morgan (the "Louisville Loan"). The Louisville Loan has a term of 10 years and bears interest at 4.045%. Payments are based on a 30 year amortization. The Louisville Loan is secured by a mortgage on Phase I of The Outlet Shoppes of the Bluegrass. The loan balance was \$66.8 million and \$68.5 million at December 31, 2021 and 2020, respectively.

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During 2015, the Louisville JV established Bluegrass Outlet Shoppes II, LLC and closed on an \$11.3 million construction loan to develop additional retail space at the Outlet Shoppes of the Bluegrass. The loan has a term of 60 months and an interest rate of LIBOR plus 2.35%. On April 20, 2020, the loan was amended in response to the COVID-19 outbreak to include an interest-only period from April 1, 2020 through June 1, 2020, with principal installments deferred until the maturity date. On July 15, 2020, the loan was amended to extend the maturity date to October 15, 2020. On October 8, 2020, the loan was amended again to extend the maturity date to October 15, 2021. On December 16, 2021, the loan was amended for a third time to extend the maturity date to October 15, 2022. The loan balance was \$8.1 million and \$8.9 million, at December 31, 2021 and 2020, respectively.

On November 2, 2020, an affiliate of CBL, the guarantor entity of the loans, filed chapter eleven bankruptcy, which is a technical default under the loan agreements. The lenders have all the default remedies specified in the loan documents, including the ability to foreclose on the property. CBL has emerged from bankruptcy. CBL and the Company are currently negotiating a default waiver agreement. Default interest has been accrued but not paid since the date of the bankruptcy filing. At December 31, 2021 and 2020, the Bluegrass entities have accrued default interest of \$3.2 million and \$449,000, respectively.

The Company received development, management, leasing, and similar fees from the Louisville JV that totaled \$447,000 and \$356,000 for the years ended December 31, 2021 and 2020, respectively.

Summary financial information (stated at 100%) of the Bluegrass entities as of December 31, 2021 and 2020, and for the years ended December 31, 2021 and 2020, is as follows (in thousands):

	As of December 31, 2021	As of December 31, 2020
Assets		
Real estate - net	\$ 49,815	\$ 52,976
Cash and cash equivalents	559	1,427
Restricted cash	3,399	1,169
Other assets	3,093	3,559
Total assets	<u>\$ 56,866</u>	<u>\$ 59,131</u>
Liabilities and members' deficit		
Mortgages and other debt	\$ 74,862	\$ 77,362
Other liabilities	3,869	1,285
Members' deficit	(21,865)	(19,516)
Total liabilities and members' deficit	<u>\$ 56,866</u>	<u>\$ 59,131</u>

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	Year Ended December 31, 2021	Year Ended December 31, 2020
Statements of Operations		
Revenue	\$ 11,599	\$ 11,873
Operating expenses	3,256	3,486
General and administrative expenses	587	571
Depreciation and amortization expense	3,780	5,571
Interest expense	5,924	3,748
Total expenses	13,547	13,376
Gain on sale of assets	1	-
Net loss	\$ (1,947)	\$ (1,503)

Laredo Outlet Shoppes

On May 10, 2016, the Company, CBL, and Lawrence Friedman formed a joint venture, Laredo Outlet JV, LLC (“Laredo JV”) to develop an outlet shopping center in Laredo, Texas. At December 31, 2021 and 2020, Laredo JV is owned 65% by CBL and 35% by Horizon El Portal, LLC (“Horizon El Portal”). At December 31, 2021 and 2020, the Company owns 75.5% and 60.8%, respectively of Horizon El Portal (see Note 9). Lawrence Friedman is a Class B member and is entitled to participate in distributions after certain internal rate of return hurdles are met.

On May 13, 2016, Laredo JV closed on a construction loan to finance the construction of the center. The loan has a maximum principal balance of \$91.3 million, a 36-month term and one 24-month extension option, subject to certain conditions. Interest accrues on the loan at LIBOR and 2.5% until the development reaches 90% occupancy, at which time the interest rate will drop to LIBOR plus 2.25%. Monthly principal payments of \$150,000 began on October 1, 2018. The loan contains certain provisions requiring principal pay-downs subject to certain conditions. In May of 2019, the loan was extended through May 2021. As a condition of the extension Horizon El Portal and its partner, CBL, made a \$10.8 million principal payment through capital contribution on the construction loan. Horizon El Portal’s share of the payment was \$3.8 million. On April 20, 2020, the loan was amended in response to the COVID-19 outbreak to include an interest-only period from April 1, 2020 through June 1, 2020, with principal installments deferred until the maturity date. At December 31, 2021 and 2020, the loan balance was \$39.5 million and \$40.6 million, respectively.

On November 2, 2020, an affiliate of CBL, the guarantor of the loan filed chapter eleven bankruptcy, which is a technical event of default under the loan agreement. In May 2021, the lender moved to appoint a receiver for the Laredo property and, thereafter, Laredo Outlet Shoppes, LLC filed chapter eleven bankruptcy. At the hearing on June 2, 2021, the court suggested mediation to reach a consensual resolution. On July 26, 2021, a comprehensive settlement was reached including a two-year extension of the loan, with an option for a third year, an agreed-upon maximum unsecured \$5 million deficiency claim, certain agreed-upon covenants and defaults and mutual releases. Interest accrues on the loan at LIBOR and 3.25%. Monthly principal payments of \$100,000 began on July 1, 2021. The Laredo Chapter 11 case has been dismissed.

During 2020, the Outlet Shoppes at Laredo was deemed to be impaired and was written down to the fair value. Fair value was determined based on a recent appraisal that valued the property at \$42.9 million. The carrying value exceed the fair value by \$52.6 million which was recorded as an impairment loss during the year ended December 31, 2020. No such impairment considerations were deemed necessary during 2021.

The Company received management, leasing development and similar fees from the Laredo JV that totaled \$192,000 and \$202,000 for the years ended December 31, 2021 and 2020, respectively.

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Summary financial information (stated at 100%) of the Laredo JV as of December 31, 2021 and 2020, and for the years ended December 31, 2021 and 2020, is as follows (in thousands):

	As of December 31, 2021	As of December 31, 2020
Assets		
Real estate - net	\$ 39,404	\$ 41,019
Cash and cash equivalents	1,548	24
Restricted cash	344	434
Other assets	2,102	2,951
Total assets	<u>\$ 43,398</u>	<u>\$ 44,428</u>

Liabilities and members' equity

Mortgages and other debt	\$ 39,450	\$ 40,600
Other liabilities	3,650	3,356
Members' equity	298	472
Total liabilities and members' equity	<u>\$ 43,398</u>	<u>\$ 44,428</u>

	Year Ended December 31, 2021	Year Ended December 31, 2020
Statements of Operations		
Revenue	<u>\$ 8,292</u>	<u>\$ 7,637</u>
Operating expenses	3,486	4,219
General and administrative expenses	439	364
Depreciation and amortization expense	3,105	6,780
Provision for impairment	-	52,615
Interest expense	1,437	2,104
Total expenses	<u>8,467</u>	<u>66,082</u>
Net loss	<u>\$ (175)</u>	<u>\$ (58,445)</u>

Note 5 - Income Taxes

HGPI is taxable as a corporation under the provisions of Subchapter C of the Internal Revenue Code. The net provision for income taxes after the change in the valuation reserve for the years ended December 31, 2021 and 2020, consisted of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Current Benefit		
Federal	\$ -	\$(221)
State	-	-
Net Benefit	<u>\$ -</u>	<u>\$(221)</u>

For federal income tax purposes, HGPI had net operating loss carryforwards ("NOLs") of approximately \$80.9 million and \$75.8 million at December 31, 2021 and 2020, respectively. Of the \$80.9 million available at December 31, 2021, approximately \$63.3 million are set to expire from 2022 to 2033 and the remainder are available indefinitely.

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Deferred income tax liabilities and assets are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities. The components of the Company's gross deferred tax assets and liabilities are as follows of December 31, 2021 and 2020, (in thousands):

Deferred Tax Assets:	<u>2021</u>	<u>2020</u>
NOL carryforwards – federal and state	\$17,126	\$17,315
Tax basis of assets in excess of book basis:		
Other	-	17
Book basis of liabilities in excess of tax basis:		
Prepaid rental revenue	<u>102</u>	<u>86</u>
Gross deferred tax assets	17,228	17,418
Less: valuation allowance	<u>(9,210)</u>	<u>(9,009)</u>
Gross deferred tax assets	<u>8,018</u>	<u>8,409</u>
Deferred Tax Liabilities:		
Book basis of assets in excess of tax basis:		
Fixed/intangible assets	(223)	(683)
Investments in and advances to joint ventures	<u>(7,795)</u>	<u>(7,726)</u>
Gross deferred tax liabilities	<u>(8,018)</u>	<u>(8,409)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance related to the net deferred tax assets increased by approximately \$201,000 and decreased by \$1.8 million in 2021 and 2020, respectively.

The Company's effective tax rate in 2021 and 2020 is lower than if the federal statutory rate were applied to net loss before income tax primarily due to the change in valuation allowance.

Note 6 - Leases

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

2022	\$ 201
2023	140
2024	130
2025	65
2026	3
Thereafter	<u>-</u>
	<u>\$ 539</u>

The above scheduled rentals are subject to the usual business risks associated with collection.

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Note 7 - Mortgages and Other Debt

Principal Balance as of:

December 31, 2021 December 31, 2020

Mortgage loan to Village Green Associates, LLC, from Peoples Bank SB, formerly First Personal Bank, (lender) with an interest rate of 6.5%, a maturity date of March 1, 2019, amended and extended to April 1, 2027, with an interest rate of 6.25%, secured by the shopping center in Huntley, Illinois and guaranteed by the Company. On April 1, 2020, the loan was amended in response to the COVID-19 outbreak to include a deferred payment period including principal and interest from April 1, 2020 through June 1, 2020, with deferred principal amounts added to the outstanding principal balance of the loan and due at maturity. The loan will be paid through 59 monthly payments of \$23,633, and 93 monthly payments of \$23,063, including interest, and one balloon payment of \$22,944.

\$ 1,339 \$ 1,511

Mortgage loan to Huntley Development Limited Partnership, from Heartland Bank and Trust bearing interest at prime (3.25% at December 31, 2021 and 2020, respectively) plus 1.5% and maturing on July 1, 2019, amended and extended to July 1, 2021. Payments consist of 58 monthly interest payments beginning on August 1, 2016, principal payments of \$750,000 on January 31, 2017, annual principal payments of \$700,000 starting on June 30 2017, and a balloon payment on July 1, 2021. On April 1, 2020, the loan was amended in response to the COVID-19 outbreak to deferred interest payments from April 1, 2020 through May 1, 2020. Subsequently, the loan payment schedule was changed to include 12 regular payments of \$80,000 each beginning July 1, 2020 and a balloon payment of \$3,417,053 on July 1, 2021. On July 1, 2021, the loan was renewed bearing interest at prime plus 2.0% and maturing on July 1, 2023. Payments consist of 23 monthly interest payments plus principal payments of \$28,783.33, with a balloon payment of \$2,804,198.34 on July 1, 2023. The Company guarantees this loan.

3,306 3,745

Promissory revolving draw note of \$5 million to Horizon Group Properties, LP, from Pleasant Lake Apts., LP bearing interest at prime per annum and maturing on May 28, 2024. Beginning February 1, 2021 interest was amended to 1.0%. Payments consist of monthly interest payments beginning August 2019 with a balloon payment on May 28, 2024. The note is guaranteed by the Company and secured by its pledged membership interest in Horizon Louisville and in Horizon El Paso as it relates to the outparcels and ancillary land in El Paso.

3,500 3,500

Unsecured, non-interest bearing, seller financed note due to CBL for their 75% interest in WGI. The note is payable when the south parcel of the Holdings land is sold.

100 750

Promissory note to Horizon Group Properties, LP, from Gary J. Skoien bearing interest at 1.00%, maturing on June 1, 2025, secured by the Promissory Note dated September 30, 2020 from Phillip Waters, an officer of the Company. Payments are due in the same aggregate amounts as due from Phillip Waters.

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SBA Paycheck Protection Program loan to Horizon Group Properties, Inc., from U.S. Bank. The loan can be 100% forgiven as long as the Company meets specific criteria, as defined, for the specific period following receipt of the loan proceeds. If the Company does not apply for and receive loan forgiveness, the loan will be required to be repaid in equal monthly installments, including interest at 1.00%, beginning ten months after the end of the covered period, as defined and matures May 5, 2022.

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SBA Paycheck Protection Program loan to Horizon Group Properties, LP., from U.S. Bank. The loan can be 100% forgiven as long as the Company meets specific criteria, as defined, for the specific period following receipt of the loan proceeds. If the Company does not apply for and receive loan forgiveness, the loan will be required to be repaid in equal monthly installments, including interest at 1.00%, beginning ten months after the end of the covered period, as defined and matures May 5, 2022.

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Unamortized debt issuance cost

8,489	11,161
(181)	(219)
<u>\$ 8,308</u>	<u>\$10,942</u>

Cash interest payments for the years ended December 31, 2021 and 2020, totaled \$308,000 and \$446,000, of which \$42,000 and \$117,000, respectively, was paid to a related party.

During 2020, the Company received proceeds from US Bank of approximately \$1.4 million as guaranteed by the Small Business Administration's (SBA) Paycheck Protection Program (PPP) and were included in debt at December 31, 2020. During 2021, the Company received additional proceeds from US Bank of \$1.4 million as guaranteed by the Small Business Administration's Paycheck Protection Program 2 (PPP2). The Company secured these funds in order to help keep their workforce employed during the COVID-19 crisis (see Note 8). The loans can be 100% forgiven as long as the Company meets specific criteria, as defined, for the specified period following receipt of the loan proceeds. This includes maintaining a certain level of employee headcount and compensation during that time period as well as demonstrating that the money was used for payroll costs, rent, mortgage interest, or utilities. During 2021, the Company applied for and received loan forgiveness from the SBA for both PPP and PPP2 loans. At December 31, 2021, the Company recognized a gain on the extinguishment of debt of approximately \$2.7 million.

As part of the revolving draw note transaction with PLA (see Note 9), 41,667 and 541,667 warrants to purchase units or shares were issued to PLA during 2020 and 2019, respectively. The warrants have an exercise price of \$3.00 per share and expire on May 29, 2024. The fair value of the warrants was estimated based on a Black-Scholes model. At December 31, 2021 and 2020, the Company recorded a \$279,000 increase in equity, \$188,000 and \$243,000 decrease in debt and a \$56,000 and \$36,000 debt issuance amortization expense, respectively. The value of the warrants issued during 2020 were deemed immaterial.

Debt Maturities

Debt maturities and principal payments due subsequent to December 31, 2021, are as follows (in thousands):

Due in:	
2022	\$ 701
2023	3,229
2024	3,782
2025	297
2026	277
Thereafter	203
Total	<u>\$ 8,489</u>

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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.

Huntley Net Profits Interests and TIF Bonds

Gary J. Skoien was formerly the Executive Vice President and Chief Operating Officer of The Prime Group, Inc. ("Prime Group"). In connection with his employment with Prime Group, Mr. Skoien was previously granted an interest (the "Skoien Net Profits Interest") in the net profits generated by HDLP, an entity which owns approximately 355 acres of land in Huntley, Illinois (the "Huntley Project"). The Company assumed this obligation in connection with the purchase of the Huntley Project from Prime Group. The Skoien Net Profits Interest consists of a 9.675% participation in the Net Cash Flow (as defined in Mr. Skoien's Net Profits Agreement) distributed to the Company (excluding distributions of all amounts contributed or advanced by the Company to the Huntley Project plus interest per the terms of the agreement) from the Huntley Project. There was no liability at December 31, 2021 and 2020.

Note 8 - Fair Value Measurements

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

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

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

Investment In Joint Ventures:

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

At December 31, 2021 and 2020, the Company used a discounted cash flow approach to estimate fair value of joint ventures and considers significant unobservable inputs such as discount rates. The methodologies utilized by the Company to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the report date.

Assets measured at fair value by level, in thousands, within the fair value hierarchy, are comprised of the following at December 31, 2021:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments in Joint Ventures	\$	\$	\$ 50,912

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

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

Following is a reconciliation of activity, in thousands, for the years ended December 31, 2021 and 2020, for the fair value of the Company's Level 3 assets:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 49,780	\$ 50,649
Unrealized gains	2,575	1,037
Distributions	<u>(1,443)</u>	<u>(1,906)</u>
Balance, end of year	<u>\$ 50,912</u>	<u>\$ 49,780</u>

Quantitative information about the Company's Level 3 inputs for the years ended December 31, 2021 and 2020, are as follows:

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

Note 9 - Related Party Transactions

At December 31, 2021 and 2020, PLA owns (1) 17.625%, of interest in El Paso Holding, (2) 11.75%, of El Paso Outparcels, and (3) 7.611%, of interest in Atlanta JV.

At December 31, 2021 and 2020, PL Skoien, owns (1) 46.4% of Horizon Atlanta, (2) 47.54% of Horizon Louisville, (3) 1.495%, of El Paso Holding, (4) 4.9167%, of El Paso Outparcels, and (5) 7.389%, of interest in Atlanta JV.

At December 31, 2021 and 2020, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At December 31, 2021 and 2020, Andrew Pelmoter, an officer of the Company, owned 2.12% of Horizon Atlanta, and 4.31% of Horizon Louisville, in addition to the Net Profits Interests discussed below.

The Company has granted Common interests in Horizon El Paso, Horizon OKC, Horizon Atlanta, and Horizon Louisville (the "Net Profits Interests") to certain officers of the Company. Holders of the Net Profits Interests are not entitled to any distributions until the holders of the preferred interests have received their capital and a 12% return thereon.

Net Profits Interests are recorded as a component of accounts payable and other accrued expenses on the accompanying balance sheet. The Net Profits Interests associated with Horizon Atlanta and Horizon Louisville continue to be adjusted associated with the Company's fair value election on these investments discussed in Note 1. As of December 31, 2021 and 2020, the Net Profits Interest liability approximated \$7.9 million and \$7.8 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.

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During 2020 and 2019, PLA loaned the Company \$250,000 and \$3.25 million, respectively. In conjunction with the loans the Company issued warrants that permit PLA to acquire 583,334 limited partnership units or shares as of December 31, 2021 and 2020. The warrants have an exercise price of \$3.00 per share or unit and expire on May 29, 2024.

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

Note 10 - COVID-19 Impact

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

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

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

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

Note 11 - Discontinued Operations

In May 2020, the Company discontinued its restaurant operation division. All restaurant locations have been closed, liquidated and assets disposed. The loss on the disposal of restaurant assets was \$1.3 million. The Company guaranteed a term loan to Horizon JR Oshkosh, LLC from Bank First National for \$328,762 bearing interest at 5.58% per annum.. The loan balance was \$63,000 at December 31, 2020, and was repaid in full in 2021.

During 2020, due to the property not meeting its debt service obligations, The Outlet Shoppes at Fremont, Burlington and Oshkosh and the lender entered an Agreed Order appointing a receiver for the three shopping centers. Burlington, Fremont, and Oshkosh are secured by a mortgage to Starwood Mortgage Capital, LLC. The loan is non-recourse to the Company, other than with respect to environmental damages and certain prohibited actions. The Company has reached an agreement with the lender on a form of deed-in-lieu of foreclosure and closed on the transaction on August 26, 2021, when ownership was transferred to the lender. The gain on the disposal of the centers deed-in-lieu of foreclosure was \$12.7 million. The agreement includes a covenant not to sue by the lender.

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Summary financial information of the discontinued operation as of December 31, 2021 and 2020, and for the years ended December 31, 2021 and 2020, is as follows (in thousands):

	As of December 31, 2020
Assets	
Land	\$ 10,582
Buildings and improvements	42,170
Less accumulated depreciation	<u>(14,080)</u>
	38,672
Construction in progress	<u>46</u>
Total net real estate	38,718
Cash and cash equivalents	1,439
Restricted cash	237
Tenant and other accounts receivable, net	1,142
Deferred costs, net of accumulated amortization	107
Other assets	<u>92</u>
Total assets	<u><u>\$ 41,735</u></u>
Liabilities	
Mortgages and other debt	\$ 51,315
Accounts payable and other accrued expenses	2,048
Prepaid rents and other tenant liabilities	<u>401</u>
Total liabilities	<u><u>\$ 53,764</u></u>

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	Year Ended December 31, 2021	Year Ended December 31, 2020
Reconciliation to amount of income (loss) on financials		
REVENUE		
Base rent	\$ 1,561	\$ 5,182
Percentage rent	1,193	573
Expense recoveries	366	543
Restaurant revenue	-	542
Other	269	212
Total revenue	<u>3,389</u>	<u>7,052</u>
EXPENSES		
Property operating	990	1,460
Real estate taxes	56	1,067
Other operating	(143)	387
Depreciation and amortization	2,133	3,561
General and administrative	618	448
Restaurant operating	7	894
Interest	632	2,465
Total expenses	<u>4,293</u>	<u>10,282</u>
Loss (gain) from the disposal of discontinued operations	<u>(12,742)</u>	<u>1,216</u>
Total income (loss) of discontinued operations	11,838	(4,446)
Less net loss (income) attributable to the noncontrolling interests	<u>312</u>	<u>(1,487)</u>
Total income (loss) of discontinued operations attributable to the Company	<u>\$ 11,526</u>	<u>\$ (2,959)</u>

Note 12 - Laws and Regulations

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