Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Financial Report
March 29, 2015 and March 30, 2014

Meritage Hospitality Group Inc. and Subsidiaries

Contents

Consolidated Financials Statements

Balance Sheet	1
Statement of Operations	2
Statement of Equity	3
Statement of Cash Flows	4-5
Notes to Consolidated Financial Statements	6

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Balance Sheet (unaudited)

	March 29, 2015	December 28, 2014
Assets		
Current Assets		
Cash	$ 4,170,228	$ 5,200,901
Receivables	250,919	237,887
Inventories	1,193,462	1,267,596
Prepaid expenses and other current assets	1,159,139	1,357,816
Total Current Assets	6,773,748	8,064,200
Property and Equipment - Net	35,195,158	39,273,369
Goodwill	30,939,361	25,675,350
Intangible Assets	1,379,508	1,409,403
Deferred Income Taxes	4,038,586	4,104,152
Other Assets		
Notes receivable	548,215	548,215
Long-term investments	4,847,862	4,783,638
Deposits and other assets	1,750,310	1,671,381
Total Assets	**$ 85,472,748**	**$ 85,529,708**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 6,139,798	$ 6,351,440
Revolving line of credit	1,444,351	4,603,213
Current portion of long-term debt	5,140,942	6,378,332
Accrued liabilities	6,899,685	7,242,834
Total Current Liabilities	19,624,776	24,575,819
Unearned Vendor Allowances	801,250	1,002,908
Accrued Rent	2,495,090	2,435,059
Other Long-term Obligations	1,606,971	1,514,199
Long-term Debt - Net of current portion	35,825,097	32,338,004
Deferred Gain - Sale and leaseback transactions	11,094,118	10,632,067
Equity	14,025,446	13,031,652
Total Liabilities and Equity	**$ 85,472,748**	**$ 85,529,708**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Operations (unaudited)

	Three Months Ended	
	March 29, 2015	March 30, 2014
Food and Beverage Revenue	$ 46,453,127	$ 35,172,898
Costs and Expenses		
Cost of food and beverages	12,751,048	10,029,089
Labor and related expenses	13,772,626	10,751,882
Advertising expenses	1,908,401	1,437,611
Other operating expenses	12,510,198	9,678,272
Total Operating Expenses	40,942,273	31,896,854
General and administrative expenses	2,446,505	1,623,131
Preopening and acquisition expenses	213,907	207,180
Closing and disposition expenses	4,858	12,278
Depreciation and amortization	1,064,267	667,559
Total Costs and Expenses	44,671,810	34,407,002
Income from Operations	1,781,317	765,896
Other (Income) Expense		
Interest expense	554,117	496,781
Other (income) expense	(350,607)	420
Total Other Expense	203,510	497,201
Income Before Income Taxes	1,577,807	268,695
Income Tax Expense	500,829	71,549
Net Income	**$ 1,076,978**	**$ 197,146**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Equity (unaudited)

	Controlling Interest						
	Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Deficit and Members Interest	Noncontrolling Interest	Total
Balance - December 29, 2013	$ 295	$ 7,460	$ 55,471	$ 17,813,608	$ (7,160,958)	$ 52,485	$ 10,768,361
Net income					2,757,654	-	2,757,654
Issuance of 60,371 shares of common stock			604	97,494			98,098
Common dividends				(167,634)			(167,634)
Preferred dividends				(623,368)			(623,368)
Stock option expense				198,541			198,541
Acquisition of non-controlling interest				52,485		(52,485)	-
Balance - December 28, 2014	$ 295	$ 7,460	$ 56,075	$ 17,371,126	$ (4,403,304)	$ -	$ 13,031,652
Net income					1,076,978		1,076,978
Issuance of 1,591 shares of common stock			16	8,989			9,005
Preferred dividends				(155,842)			(155,842)
Stock option expense				63,653			63,653
Balance - March 29, 2015	$ 295	$ 7,460	$ 56,091	$ 17,287,926	$ (3,326,326)	$ -	$ 14,025,446

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows (unaudited)

	Three Months Ended	
	March 29, 2015	March 30, 2014
Cash Flows from Operating Activities		
Net Income	$ 1,076,978	$ 197,146
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,064,267	667,559
Deferred income taxes	65,566	(191,733)
Amortization of deferred gain from sale and leaseback transactions	(227,668)	(220,223)
Change in fair market value of swap	-	(2,796)
Compensation paid by issuance of common stock	9,005	13,998
Loss on disposal of intangible assets	-	68,179
Loss on disposal of fixed assets	3,785	3,975
Stock option expense	63,653	28,018
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	(13,032)	(104,417)
Inventories	133,169	54,150
Prepaid expenses and other current assets	198,677	126,557
Deposits and other assets	(66,622)	(410,386)
Accounts payable	(211,642)	44,192
Accrued liabilities	(348,063)	(1,740,253)
Other long-term liabilities	92,772	442,250
Accrued rent	60,031	64,285
Unearned vendor allowances	(254,460)	961,265
Net cash provided by operating activities	1,646,416	1,766
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,685,192)	(2,566,607)
Purchase of intangible assets	-	(27,500)
Change in long term investments	(64,224)	(77,750)
Acquisitions, net	(6,134,351)	-
Increase in deposits and other assets	-	(40,205)
Net cash used in investing activities	(7,883,767)	(2,712,062)

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows (unaudited) Continued

	Three Months Ended	
	March 29, 2015	March 30, 2014
Cash Flows from Financing Activities		
Proceeds from long-term debt	5,000,000	858,608
Proceeds from revolving lines of credit	603,253	1,306,946
Proceeds from sale leaseback transactions	6,303,342	5,671,370
Principal payments on long-term debt	(1,064,424)	(955,692)
Payments on capital lease	(49,623)	-
Payments on debt related to sale leaseback transactions	(5,398,365)	(4,270,000)
Payments on financing costs	(31,663)	-
Preferred stock dividends paid	(155,842)	(155,842)
Net cash provided by financing activities	5,206,678	2,455,390
Net Decrease in Cash	(1,030,673)	(254,906)
Cash - Beginning of year	5,200,901	3,479,265
Cash - End of year	$ 4,170,228	$ 3,224,359
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 556,266	$ 530,726
Income taxes	$ 36,000	$ 3,160
Significant non-cash investing and financing transactions:		
Deferred gain on sale leaseback transactions	$ 689,719	$ 967,948

See notes to consolidated financial statements

Note 1 - Consolidation

The consolidated financial statements include the accounts of Meritage Hospitality Group Inc., all of its wholly owned subsidiaries, and its 98.5% owned subsidiary, RDG-MHG, LLC., (“RDG”). RDG is a 15% partner in TRG-Meritage Bahamas, LLC., (“TRG”). All intercompany transactions and balances have been eliminated in consolidation.

Note 2 - Stockholders' Equity

The Company has 5,000,000 authorized shares of $0.01 par value per share preferred stock. 200,000 shares are designated as Series A convertible cumulative preferred stock, with 29,520 shares issued and outstanding as of March 29, 2015 and December 28, 2014. 1,350,000 shares are designated as Series B convertible cumulative preferred stock, with 746,000 shares issued and outstanding as of March 29, 2015 and December 28, 2014.

The Company has 30,000,000 authorized shares of $0.01 par value per share common stock, with 5,609,114 and 5,607,523 shares issued and outstanding as of March 29, 2015 and December 28, 2014, respectively.

Note 3 - Acquisition of Wendy's Restaurants

The Company acquired nine Wendy’s restaurants in January 2015. All restaurants acquired included the business and equipment. The Company entered into new lease agreements for all newly acquired locations with the restaurants' building owners, and franchise agreements for all locations with the Company's franchisor, The Wendy’s Company. The acquisition was financed with approximately $5,000,000 of new debt, $1,188,000 of cash, and $58,000 of seller credits and closing costs. The transaction resulted in the recording of approximately $5,270,000 of goodwill, $869,000 of equipment, and $59,000 of inventory.

The Company expensed $80,000 of acquisition and preopening costs in 2015 related to the transaction.

Note 4 - Sale Leasebacks

The Company completed three sale and leaseback transactions during the three months ended March 29, 2015. The Company netted proceeds of approximately $6,303,000, and with such proceeds paid down indebtedness of $5,398,000, and deposited $885,000 into the Company's treasury. The Company recorded deferred gains of approximately $690,000. The gains are being amortized over the 20-year lease terms and recorded as a reduction of base rent expense.

Meritage Hospitality Group Inc.
Quarterly Report

For Quarterly Period Ended March 29, 2015

The following information provides updates to the Annual Report for Fiscal Year Ended December 28, 2014. Accordingly, this report does not contain all the information required of an issuer for its initial disclosure obligations, and should therefore be reviewed in conjunction with the Annual Report for Fiscal Year Ended December 28, 2014 and any interim reports or updates provided since the fiscal year-end report.

Item 1 Exact name of the issuer and the address of its principal executive offices.

Name of the Company or Issuer:
Meritage Hospitality Group Inc. (the "Company" or "Meritage").

Address of Principal Office:
3310 Eagle Park Drive NE, Suite 205
Grand Rapids, MI 49525
Telephone: 616.776.2600
Facsimile: 616.776.2776
Web: www.meritagehospitality.com

Item 2 Shares outstanding.

Common Shares	3/29/15	12/28/14	12/29/13
Authorized:	30,000,000 shares	30,000,000 shares	30,000,000 shares
Outstanding:	5,609,114 shares	5,607,523 shares	5,547,152 shares
Freely Tradable (public float):	approx. 3,000,000 shs.	approx. 3,000,000 shs.	approx. 3,000,000 shs.
Number of beneficial holders owning at least 100 shares:	approx. 383 holders	approx. 383 holders	approx. 220 holders
Number of record holders:	approx. 100 holders	approx. 100 holders	approx. 110 holders
Preferred A			
Authorized:	200,000 shares	200,000 shares	200,000 shares
Outstanding:	29,520 shares	29,520 shares	29,520 shares
Freely Tradable (public float):	29,520 shares	29,520 shares	29,520 shares
Number of record holders:	2 holders	2 holders	2 holders
Preferred B			
Authorized:	1,350,000 shares	1,350,000 shares	1,350,000 shares
Outstanding:	746,000 shares	746,000 shares	746,000 shares
Freely Tradable (public float):	300,000 shares	300,000 shares	300,000 shares
Number of record holders:	33 holders	38 holders	33 holders

Item 3 Interim financial statements.

See the unaudited consolidated financial report for the quarter ended March 29, 2015 attached at the end of this report. The unaudited consolidated financial statements include the following reports:

(1) balance sheet;
(2) statement of operations;
(3) statement of equity;
(4) statement of cash flows; and
(5) notes to consolidated financial statements.

Item 4 Management's discussion and analysis or plan of operation.

Overview

The Company reported revenues of $46.5 million for the three months ended March 29, 2015 compared to revenues of $35.2 million for the three months ended March 30, 2014, an increase of 32.1%. The increase in revenues was primarily due to the net addition of 23 restaurants in 2014, and the addition of nine restaurants in 2015. Additionally, total Company "same store sales" increased by 3.0% for all restaurants in the three months ended March 29, 2015.

The Company is committed to its growth strategy and continues to evaluate acquisition opportunities in the Wendy's restaurant system. Since 2009, the Company has acquired 94 Wendy's restaurants through 13 separate transactions.

Results of Operations

Meritage operates in the quick-service and casual dining restaurant industries. The Company has experienced significant growth through its development and acquisition efforts and the launch of its own, self-created concepts, Twisted Rooster, Crooked Goose and Freighters. At March 29, 2015, the Company operated 146 Wendy's Old Fashioned Hamburger quick-service restaurants under franchise agreements with The Wendy's Company and five casual dining restaurants. Of the Wendy's, forty-seven are located in Michigan, 49 in Florida, 37 in Georgia, two in North Carolina, one in South Carolina, and 10 in Virginia. All five casual dining restaurants are located in Michigan.

A schedule of Company restaurants follows:

	Wendy's	Casual Dining	Total Restaurants
Restaurants as of December 29, 2013	114	5	119
Acquired restaurants	19	-	19
Newly opened restaurants	4	-	4
Restaurants as of December 28, 2014	137	5	142
Acquired restaurants	9	-	9
Restaurants as of March 29, 2015	146	5	151

Results of operations are summarized below.

	Three Months Ended (000's)			
	3/29/2015		3/30/2014	
Food and Beverage Revenue	$46,453	100.0%	$35,173	100.0%
Costs and Expenses				
Cost of food and beverages	12,751	27.5%	10,029	28.5%
Labor and related expenses	13,773	29.6%	10,752	30.6%
Advertising expenses	1,908	4.1%	1,438	4.1%
Other operating expenses	12,510	26.9%	9,678	27.5%
Total Operating Costs	40,942	88.1%	31,897	90.7%
General & administrative expense	2,447	5.3%	1,623	4.6%
Preopening and acquisition expenses	214	0.5%	207	0.6%
Closing and disposition expenses	5	0.0%	12	0.0%
Depreciation and amortization	1,064	2.3%	668	1.9%
Total Costs and Expenses	44,672	96.2%	34,407	97.8%
Income from Operations	1,781	3.8%	766	2.2%
Other (Income) Expense				
Interest expense	554	1.2%	497	1.4%
Other (income)	(351)	-0.8%	-	0.0%
Total Other Expense	204	0.4%	497	1.4%
Income Before Income Taxes	1,577	3.4%	269	0.8%
Income Tax Expense	501	1.1%	72	0.2%
Net Income	1,077	2.3%	197	0.6%

Food and Beverage Revenue

For the three months ended March 29, 2015, revenues increased 32.1%, to $46.5 million from $35.2 million in the three months ended March 30, 2014.

The Company's Wendy's restaurants reported sales of $43.0 million in the three months ended March 29, 2015, an increase of 34.9% over the prior year's first quarter sales. The most significant contributing factor to the increase was the net addition of 23 Wendy's restaurants in 2014, and nine restaurants in the first quarter of 2015. The Company's Wendy's restaurants experienced a "same store sales" increase of 2.8% in the first quarter of 2015.

The Company's casual dining restaurants reported sales of $3.5 million in the three months ended March 29, 2015, a "same stores sales" increase of 4.9% over the prior year's first quarter sales.

Cost of Food and Beverages

The cost of food and beverages declined as a percentage of sales to 27.5% in the three months ended March 29, 2015, from 28.5% in the same period in the prior year. The decrease in cost of food and beverages as a percentage of revenues was due to strategic price increases offset by a 38.5% increase in the average beef cost from $1.92 to $2.66 per pound for the comparable year over year quarters.

Labor and Related Expenses

Labor and related expenses decreased to 29.6% of revenues for the three months ended March 29, 2015 from 30.6% of revenues in the same period in the prior year. The decrease in labor is attributed to more efficient management of hourly labor.

Other Operating Expenses

Other operating expenses decreased as a percentage of revenues to 26.9% in the three months ended March 29, 2015 from 27.5% in the three months ended March 30, 2014. The decrease is related to inflated utility expenses and increased snowplow expenses from the unseasonably cold winter in the first quarter of 2014. These coupled with increased sales in 2015, and reduced supply expenses result in a diluted impact of fixed costs.

General and Administrative Expenses

General and administrative expenses increased to 5.3% of revenues in the three months ended March 29, 2015, from 4.6% of revenues in the three months ended March 30, 2014. The percentage increase is primarily due to additional operational oversight and related compensation expenses needed to support the Company's continued expansion.

Preopening and Acquisition Expenses

Preopening and acquisition expenses include costs associated with the acquisition of nine Wendy's restaurants during the first three months of 2015.

Interest Expense

The increase in the amount of interest expense was primarily due to financings associated with the net addition of 23 Wendy's restaurants in 2014.

Other Income

Other income was primarily related to gain on a purchase option transaction completed in the first quarter of 2015.

Income Tax Expense

Income tax expense is summarized below.

	Three Months Ended (000's)	
	3/29/2015	3/30/2014
Federal income tax expense	303	7
State and local income tax expense	132	125
Change in deferred tax asset	66	(60)
Income tax expense	501	72

Financial Condition

Management monitors short and long-term cash needs and believes at this time, that with its ongoing operations and current cash balances, the Company has sufficient capital to meet its ongoing obligations. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. At March 29, 2015, the Company was in compliance with all of these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of March 29, 2015.

Item 5 Legal proceedings.

The Company is involved in various routine legal proceedings that are incidental to its business. All of these proceedings arose in the ordinary course of the Company's business and, in the opinion of the Company, any potential liability of the Company with respect to these legal proceedings will not, in the aggregate, be material to the Company's consolidated financial statements. The Company maintains various types of insurance standard to the industry that, subject to deductibles, will insure over many claims and legal proceedings brought against the Company.

Item 6 Defaults upon senior securities.

None.

Item 7 Other information.

None.

Item 8 Exhibits.

None.

Item 9 Certifications.

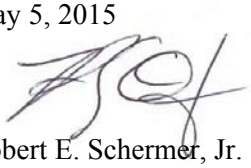
I, Robert E. Schermer, Jr., Chief Executive Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Meritage Hospitality Group Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 5, 2015



Robert E. Schermer, Jr.
Chief Executive Officer

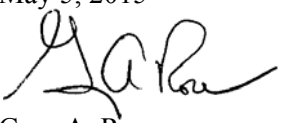
I, Gary A. Rose, Chief Financial Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Meritage Hospitality Group Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 5, 2015



Gary A. Rose
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report that are not historical facts constitute forward-looking statements. These may be identified by words such as "estimates," "anticipates," "hopes," "projects," "plans," "expects," "believes," "should," and similar expressions, and by the context in which they are used. Such statements are based only upon current expectations of the Company. Any forward-looking statement speaks only as of the date made. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to differ materially from those expressed or implied. Meritage undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which they are made.

Statements concerning expected financial performance, business strategies and action which Meritage intends to pursue to achieve its strategic objectives, constitute forward-looking information. Implementation of these strategies and achievement of such financial performance are subject to numerous conditions, uncertainties and risk factors, which could cause actual performance to differ materially from the forward-looking statements. These include, without limitation: competition; changes in the national or local economy; changes in consumer tastes and eating habits; concerns about the nutritional quality of our restaurant menu items; concerns about consumption of beef or other menu items due to diseases; promotions and price discounting by competitors; severe weather; changes in travel patterns; road construction; demographic trends; the cost of food, labor and energy; the availability and cost of suitable restaurant sites; the ability to finance expansion; interest rates; insurance costs; the availability of adequate managers and hourly-paid employees; directives issued by the franchisor regarding operations and menu pricing; the general reputation of Meritage's and its franchisors' restaurants; the relationship between Meritage and its franchisors; legal claims; and the recurring need for renovation and capital improvements. Meritage is also subject to extensive government regulations relating to, among other things, zoning, public health, sanitation, alcoholic beverage control, environment, food preparation, minimum and overtime wages and tips, employment of minors, citizenship requirements, working conditions, and the operation of its restaurants. Because Meritage's operations are concentrated in certain areas of Michigan, Florida, Georgia, North and South Carolina and Virginia, continued economic decline in these states, or in the local economies where our restaurants are located, could adversely affect our operations. Additionally, with Meritage's expansion into Florida, the Company could be adversely affected by tropical storms or hurricanes. The Company's news releases and public reports are not intended to constitute an offer to sell or a solicitation of an offer to buy any securities of the Company or otherwise engage in a transaction with the Company.