Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Financial Report
April 3, 2022 and April 4, 2021

Contents

Consolidated Financial Statements

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Balance Sheets
(in thousands)

	(unaudited) April 3, 2022	January 2, 2022
Assets		
Current Assets		
Cash	$ 42,027	$ 49,951
Receivables	1,717	1,604
Inventories	4,353	4,408
Prepaid expenses and other current assets	9,675	6,159
Total Current Assets	57,772	62,122
Property and Equipment - Net	128,128	135,566
Goodwill	174,243	174,243
Intangible Assets - Net	5,399	5,209
Operating Lease Right-of-Use Assets - Net (Note 2)	372,748	371,026
Other Assets		
Long-term investments	1,786	1,786
Deposits and other assets	13,056	8,679
Total Assets (1)	**$ 753,132**	**$ 758,631**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 16,219	$ 21,738
Lines of credit	9,579	12,526
Current portion of long-term debt	17,165	13,333
Current portion of operating lease obligations payable (Note 2)	24,962	24,466
Accrued liabilities	22,916	29,341
Total Current Liabilities	90,841	101,404
Unearned Vendor Allowances	7,710	1,713
Operating Lease Obligations Payable (Note 2)	353,493	352,177
Other Long-term Liabilities	15,420	15,550
Long-term Debt - Net of current portion (Note 6)	158,410	165,383
Deferred Income Taxes	14,271	13,720
Total Liabilities (1)	$ 640,145	$ 649,947
Equity (Note 7)	112,987	108,684
Total Liabilities and Equity (1)	**$ 753,132**	**$ 758,631**

See notes to consolidated financial statements

(1) See Note 4 for balance sheet information on the Variable Interest Entity

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share data)

	Three Months Ended (unaudited) April 3, 2022	Three Months Ended (unaudited) April 4, 2021
Food and Beverage Revenue	$ 145,089	$ 133,824
Expenses		
Food and beverage	39,040	33,579
Labor and related	48,054	40,714
Occupancy	18,951	18,588
Advertising	5,667	5,261
Franchise fees	5,502	5,121
Other operating	13,031	11,461
Total Operating Expenses	130,245	114,724
General and administrative	6,324	8,199
Preopening, acquisition and closing	1,763	680
Depreciation and amortization	4,307	3,898
Total Expenses	142,639	127,501
Income from Operations	2,450	6,323
Other Expense (Income)		
Interest	1,700	1,810
Other	(1,354)	(1,833)
Total Other Expense (Income)	346	(23)
Income Before Income Taxes	2,104	6,346
Income Tax Expense	147	1,465
Consolidated Net Income	**$ 1,957**	**$ 4,881**
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	122	297
Consolidated Comprehensive Net Income Attributable to Controlling Interest	**$ 1,835**	**$ 4,584**
Other Comprehensive Income - Net of Tax		
Change in interest rate swap valuation	3,853	-
Consolidated Comprehensive Net Income	**$ 5,688**	**$ 4,584**
Earnings per share		
Basic	$ 0.17	$ 0.61
Diluted	$ 0.15	$ 0.48
Basic Weighted Average Shares Outstanding	6,563	6,666
Diluted Weighted Average Shares Outstanding	8,417	9,568

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Equity
(in thousands)

	Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total
Balance - January 3, 2021	$ 14	$ 67	$ 36,233	$ -	$ 59,489	$ 2,616	$ 98,419
Net income	-	-	-	-	17,445	757	18,202
Issuance of common stock	-	1	162	-	-	-	163
Repurchase of common stock	-	(2)	(4,420)	-	-	-	(4,422)
Repurchase of preferred stock	-	-	(107)	-	-	-	(107)
Common stock dividends	-	-	-	-	(2,146)	-	(2,146)
Preferred stock dividends - net	-	-	-	-	(1,655)	-	(1,655)
Interest rate swap	-	-	-	1,402	-	-	1,402
Company-owned stock	-	-	(1,958)	-	-	-	(1,958)
Stock option expense	-	-	1,233	-	-	-	1,233
Distributions	-	-	-	-	-	(447)	(447)
Balance - January 2, 2022	$ 14	$ 66	$ 31,143	$ 1,402	$ 73,133	$ 2,926	$ 108,684
Net income	-	-	-	-	1,835	122	1,957
Issuance of common stock	-	-	47	-	-	-	47
Preferred stock dividends - net	-	-	-	-	(414)	-	(414)
Interest rate swap - net of tax	-	-	-	3,853	-	-	3,853
Company-owned stock	-	-	(1,397)	-	-	-	(1,397)
Stock option expense	-	-	299	-	-	-	299
Distributions	-	-	-	-	-	(42)	(42)
Balance - April 3, 2022 (unaudited)	$ 14	$ 66	$ 30,092	$ 5,255	$ 74,554	$ 3,006	$ 112,987

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Cash Flows
(in thousands)

	Three Months Ended (unaudited) April 3, 2022	April 4, 2021
Cash Flows from Operating Activities		
Net Income	$ 1,957	$ 4,881
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	4,307	3,898
Amortization of financing costs	148	136
Deferred income taxes	(473)	824
Loss on disposal of fixed assets	2,176	1,015
Gain on sale and leaseback transactions	(1,601)	(1,470)
Change in fair value of swap	-	(446)
Change in company-owned stock	(1,397)	(1,630)
Stock option expense	299	315
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	(113)	(1,265)
Inventories	55	(196)
Prepaid expenses and other current assets	(3,516)	1,083
Deposits and other assets	(327)	(766)
Accounts payable	(5,519)	(1,677)
Accrued liabilities	(7,349)	(3,106)
Unearned vendor allowances	5,997	5,346
Other long-term liabilities	1,706	2,496
Net cash (used in) provided by operating activities	(3,650)	9,438
Cash Flows from Investing Activities		
Purchase of property and equipment	(5,920)	(21,425)
Purchase of intangible assets	(275)	(112)
Net cash (used in) investing activities	(6,195)	(21,537)

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended (unaudited) April 3, 2022	Three Months Ended (unaudited) April 4, 2021
Cash Flows from Financing Activities		
Principal payments on long-term debt	(3,289)	(4,940)
Proceeds from lines of credit	3,208	16,650
Payments on lines of credit	-	(838)
Proceeds from sale and leaseback transactions	8,567	7,045
Payments on lines of credit related to sale and leaseback transactions	(6,156)	(5,357)
Repurchase of common stock	-	(54)
Repurchase of preferred stock	-	(70)
Proceeds from issuance of common stock	47	51
Common stock dividends paid	-	(534)
Preferred stock dividends paid - net	(414)	(414)
Distributions to Noncontrolling Interest	(42)	(15)
Net cash provided by financing activities	1,921	11,524
Net Decrease in Cash	(7,924)	(575)
Cash - Beginning of period	49,951	32,319
Cash - End of period	$ 42,027	$ 31,744
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 1,534	$ 2,257
Income taxes	$ 44	$ 33

See notes to consolidated financial statements.

(in thousands, except share data)

Note 1 – Consolidation

The consolidated financial statements include the accounts of Meritage Hospitality Group Inc. (“MHGI”), all of its wholly owned subsidiaries, its 98.5% owned subsidiary, RDG-MHG, LLC (“RDG”), a 15% partner in TRG-Meritage Bahamas, LLC (“TRG”), and its variable interest entity (“VIE”), Restaurant Holdings, LLC (“Restaurant Holdings”), for which the Company is a primary beneficiary. The VIE is consolidated because the Company has the power to direct activities that impact the VIE’s economic performance, as well as the right to receive benefits or the obligation to absorb losses from the VIE that could potentially be significant.

Earnings from Restaurant Holdings are reported as a noncontrolling interest in the accompanying consolidated statement of operations. All intercompany transactions and balances between the Company, its subsidiaries and Restaurant Holdings have been eliminated in consolidation.

As the Company generates revenue through the sale of restaurant food and beverage, it aggregates results into sales from its quick-service restaurants and independent concept restaurants. Included in the consolidated statements of operations for years ended April 3, 2022 and April 4, 2021 are the following results:

	Three Months Ended	
	04/03/22	04/04/21
Quick-service restaurants	$ 142,614	$ 132,375
Independent concept restaurants	2,475	1,449
Total Revenue	$ 145,089	$ 133,824

Note 2 - Leases

The Company has operating lease agreements for unowned restaurants, the corporate office, and certain equipment. Land and building leases used in operations have remaining lease terms ranging from one to 20 years, some of which include options to renew for up to 50 years.

On the consolidated balance sheets, operating leases are included in operating lease right-of-use (“ROU”) assets, operating lease obligations payable, and current portion of operating lease obligations payable. Finance leases are included in property and equipment, long-term debt, and current portion of long-term debt.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term upon commencement date. The Company's lease terms may include options to extend or terminate the lease. The present value of future minimum lease payments includes these options only when it is reasonably certain such options will be exercised.

The Company's leases do not provide an implicit rate. In determining present value of future minimum lease payments, the Company utilized an incremental borrowing rate congruent with its primary lending agreement. The weighted average effective discount rate as of April 3, 2022 was 4.4%.

(in thousands, except share data)

Base rent expense includes non-lease components such as taxes, insurance, and maintenance when required under the lease agreements and is classified as occupancy expense in the consolidated statements of operations. As a result of adopting ASC 842, the Company elected the practical expedient to not separate non-lease components from the lease components to which they relate. For certain equipment leases, the Company applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Rent expense from operating leases was recognized as follows:

	Three Months Ended	
	04/03/22	04/04/21
Operating lease costs:		
Fixed base lease expense - real estate	$ 9,901	$ 9,474
Fixed base lease expense - equipment	443	376
Variable lease expense	269	196
Total	$ 10,613	$ 10,046

Supplemental cash flow information related to operating leases was as follows:

	Three Months Ended	
	04/03/22	04/04/21
Cash paid for amounts included in the measurement of lease liabilities	$ 10,135	$ 9,456
Right-of-use assets obtained in exchange for lease obligations	$ 4,206	$ 1,340

The weighted-average remaining lease term for operating leases as of both April 3, 2022 and April 4, 2021 was approximately 15 years.

The future payments due under operating leases as of April 3, 2022 are projected as follows:

2022	$ 30,732
2023	40,490
2024	40,160
2025	38,978
2026	35,259
Thereafter	324,475
Total	$ 510,094
Less present value discount at 4.4%	(131,639)
Lease liability recognized	$ 378,455

Note 3 – Sale and Leasebacks

The Company completed three sale and leaseback transactions for both the three months ended April 3, 2022 and April 4, 2021. Through these transactions, the Company netted proceeds of $8,567 and $7,045, paid down indebtedness of $6,156 and $5,357, and recorded net gains of $1,601 and $1,470 for the three months ended April 3, 2022 and April 4, 2021, respectively. Such gains were recorded in other income on the consolidated statement of operations.

Note 4 – Information About Variable Interest Entity

Restaurant Holdings was formed to facilitate real estate transactions where the Company has potential economic benefits in future sale and leaseback transactions. This variable interest entity ("VIE ") is owned by related parties and not directly by the Company. Restaurant Holdings is consolidated due to the Company's power to direct activities that impact its economic performance, as well as the right to receive benefits or the obligation to absorb losses from Restaurant Holdings that could potentially be significant.

The purpose of Restaurant Holdings is to provide a source of capital to fund the purchase of restaurant real estate and, when sold, provide potential upside to the Company. Upon acquisition of real estate, Restaurant Holdings leases such real estate to the Company and utilizes rent revenue to pay the interest expense on its bank debt. The Company's senior credit facility requires the Company to finance acquisitions of real estate with a minimum of 25% of the purchase price in equity. The Company believes this requirement is dilutive to its long-term real estate strategy.

Restaurant Holdings leverages a revolving credit facility with a bank other than the Company's senior lender that allows for borrowings up to $30,000 secured by its interest in the real estate and personal guarantees of owners. As of April 3, 2022 and January 2, 2022, Restaurant Holdings had bank debt obligations totaling $7,934 and $9,816, respectively.

(in thousands, except share data)

Included in the consolidated balance sheets as of April 3, 2022 and January 2, 2022 are the following amounts related to Restaurant Holdings, before eliminating entries:

	04/03/22	01/02/22
Assets:		
Current assets	$ 4,249	$ 4,694
Property and Equipment - net	3,063	6,039
Other assets	469	469
Investment in MHGI preferred stock	5,000	5,000
Total Assets	$ 12,781	$ 16,202
Liabilities:		
Current liabilities	$ 752	$ 2,464
Current portion of long-term debt	4,100	400
Revolving line of credit	3,834	5,618
Long-term debt	-	3,798
Total Liabilities	8,686	12,280
Equity - Noncontrolling interest	4,095	3,922
Total Liabilities and Equity	$ 12,781	$ 16,202

Note 5 - Commitments and Contingencies

As part of the Company's ongoing franchise relationship with The Wendy's Company, the Company entered into agreements which contain certain restaurant reimaging and development requirements. Through these agreements, the Company committed to reimage 100% of its portfolio by December 31, 2024 and to develop 50 new restaurants by November 30, 2025. Pursuant to these agreements, the Company is entitled to receive significant economic incentives which include royalty and national marketing fee relief. The Company has reimaged approximately 64% of its portfolio and has completed approximately 22 of the new restaurant commitments. The Company estimates that it will invest approximately $116,220 to fulfill the commitments of these agreements.

The Company additionally is required to complete certain agreed-upon improvements to facilities. As of April 3, 2022, these capital improvements have remaining estimated costs of approximately $468.

Effective August 2021, the Company entered into an Area Development Agreement with its newest franchisor, Taco John's. Subject to certain terms and conditions, the Company committed to build 50 new Taco John's restaurants by March 31, 2026 with options to develop an additional 150 restaurants thereafter. The Company estimates it will invest approximately $100,000 in the initial 50 store roll-out.

(in thousands, except share data)

Note 6 - Long-Term Debt

Effective August 5, 2021, the Company refinanced its existing debt to a $302,800 credit facility with a maturity date of April 2027. The new credit facility includes $181,800 million in long-term debt, $15,000 in revolving short-term debt, and $106,000 of available credit representing $86,000 of term debt and $20,000 in a revolving line of credit.

Note 7 - Equity

The Company has 5,000,000 authorized shares of $0.01 par value, convertible preferred stock. As of April 3, 2022 and January 2, 2022, preferred stock was designated as follows net of consolidation:

	04/03/22	01/02/22
Preferred B:		
Authorized:	1,350,000	1,350,000
Outstanding:	805,900	805,900
Preferred C:		
Authorized:	200,000	200,000
Outstanding:	160,360	160,360
Preferred D:		
Authorized:	600,000	600,000
Outstanding:	310,293	310,293
Preferred E, net:		
Authorized:	800,000	800,000
Outstanding:	128,744	128,744

The Company's preferred stock ranks senior to the Company's common stock with respect to payment of dividends and distributions upon liquidation or dissolution.

The Company has 30,000,000 authorized shares of $0.01 par value common stock, with 6,582,867 and 6,545,089 shares issued and outstanding as of April 3, 2022 and January 2, 2022, respectively. The common shares of the Company are quoted on the OTC Markets under the symbol "MHGU."

Note 8 – Reclassification

Certain 2021 immaterial amounts have been reclassified to conform to the 2022 presentation.

Meritage Hospitality Group Inc.
Quarterly Report

For Quarterly Period Ended April 3, 2022

The following information provides an update to the Annual Report for Fiscal Year Ended January 2, 2022. Accordingly, this report does not contain all the information required of an issuer for its annual disclosure obligations and should therefore be reviewed in conjunction with the Annual Report for Fiscal Year Ended January 2, 2022 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:
45 Ottawa Ave SW, Suite 600
Grand Rapids, MI 49503
Telephone: 616.776.2600
Facsimile: 616.328.6925
Web: www.meritagehospitality.com

Item 2 Shares outstanding.

Common Shares	04/03/22	01/02/22	01/03/21
Authorized:	30,000,000 shares	30,000,000 shares	30,000,000 shares
Outstanding:	6,582,867 shares	6,545,089 shares	6,643,681 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. 723 holders	approx. 723 holders	approx. 698 holders
Number of record holders:	approx. 58 holders	approx. 59 holders	approx. 68 holders
Preferred B			
Authorized:	1,350,000 shares	1,350,000 shares	1,350,000 shares
Outstanding:	805,900 shares	805,900 shares	809,067 shares
Freely Tradable (public float):	300,000 shares	300,000 shares	300,000 shares
Number of record holders:	18 holders	22 holders	45 holders
Preferred C			
Authorized:	200,000 shares	200,000 shares	200,000 shares
Outstanding:	160,360 shares	160,360 shares	160,360 shares
Number of record holders:	7 holders	7 holders	7 holders
Preferred D			
Authorized:	600,000 shares	600,000 shares	600,000 shares
Outstanding:	310,293 shares	310,293 shares	310,293 shares
Number of record holders:	24 holders	24 holders	24 holders

Preferred E	04/03/22	01/02/22	01/03/21
Authorized:	800,000 shares	800,000 shares	800,000 shares
Outstanding:	341,510 shares	341,510 shares	341,510 shares
Number of record holders:	14 holders	14 holders	14 holders

Item 3 Interim financial statements.

See the unaudited consolidated financial report for the quarter ended April 3, 2022 attached to this report. The unaudited consolidated financial statements include the following reports:

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

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

Overview

Meritage operates in the quick-service and casual dining restaurant industries. The Company has experienced significant growth through acquisitions, newly built locations, reimaging campaigns, and investment in independent concept restaurants. The Company has committed significant capital resources to the Wendy's brand initiatives, including a commitment to build 50 new restaurants by November 30, 2025 under a development agreement with Wendy's. As of the date of this report, the Company has completed approximately 22 of the new restaurant commitments. Additionally, since 2009, the Company has acquired 264 Wendy's restaurants through 26 separate transactions making it one of the largest franchisees in the Wendy's system. As part of its long-term growth strategy, the Company continues to evaluate acquisition opportunities in the Wendy's system, as well as other growth opportunities in the restaurant industry.

In connection with the Company's continued growth initiatives, the Company entered into an Area Development Agreement effective August 18, 2021 with its newest quick-service franchisor, Taco John's. Subject to certain terms and conditions, the Company committed to build 50 new Taco John's restaurants by March 31, 2026, with options to develop an additional 150 restaurants thereafter. The Company estimates it will invest approximately $100 million in the initial 50 store roll-out.

In an effort to further refine the Company's brands and establish future development opportunities, the Company sold one of its independent concepts comprised of two Twisted Rooster restaurants in the first quarter of 2022. The Company continues to actively focus on consolidating its independent concepts into primary brands: Morning Belle and Stan's Tacos.

As of April 3, 2022, the Company operated 337 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company, and six independent restaurants operating under three concepts. Of the Wendy's quick-service restaurants, there are eight restaurants in Arkansas, 32 in Connecticut, 54 in Florida, 48 in Georgia, 12 in Indiana, 13 in Massachusetts, 55 in Michigan, seven in Mississippi, three in Missouri, two in North Carolina, 15 in Ohio, 28 in Oklahoma, one in South Carolina, 33 in Tennessee, 13 in Texas and 13 in Virginia. All six independent concept restaurants are located in Michigan.

A schedule of Company restaurants is as follows:

	Wendy's	Independent Concepts	Total Restaurants
Restaurants as of January 3, 2021	333	7	340
Newly opened restaurants	8	1	9
Closed restaurants	(4)	-	(4)
Restaurants as of January 2, 2022	337	8	345
Newly opened restaurants	4	-	4
Closed restaurants	(4)	-	(4)
Sold restaurants	-	(2)	(2)
Restaurants as of April 3, 2022	337	6	343

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Results of Operations

Results of operations are summarized as follows:

	04/03/22 (in thousands)		04/04/21 (in thousands)	
Food and Beverage Revenue	$ 145,089	100.0%	$ 133,824	100.0%
Expenses				
Food and beverage	39,040	26.9%	33,579	25.1%
Labor and related	48,054	33.1%	40,714	30.4%
Occupancy	18,951	13.1%	18,588	13.9%
Advertising	5,667	3.9%	5,261	3.9%
Franchise fees	5,502	3.8%	5,121	3.8%
Other operating	13,031	9.0%	11,461	8.6%
Total Operating Expenses	130,245	89.8%	114,724	85.7%
General and administrative	6,324	4.4%	8,199	6.1%
Preopening, acquisition and closing	1,763	1.2%	680	0.5%
Depreciation and amortization	4,307	3.0%	3,898	2.9%
Total Expenses	142,639	98.4%	127,501	95.2%
Income from Operations	2,450	1.6%	6,323	4.8%
Other Expense (Income)				
Interest	1,700	1.2%	1,810	1.4%
Other	(1,354)	(0.9%)	(1,833)	(1.4%)
Total Other Expense (Income)	346	0.3%	(23)	0.0%
Income Before Income Taxes	2,104	1.3%	6,346	4.8%
Income Tax Expense	147	0.1%	1,465	1.1%
Consolidated Net Income	$ 1,957	1.2%	$ 4,881	3.7%
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	122	0.1%	297	0.2%
Consolidated Comprehensive Net Income Attributable to Controlling Interest	$ 1,835	1.1%	$ 4,584	3.5%
Other Comprehensive Income - Net of Tax				
Change in interest rate swap valuation	3,853	2.7%	-	0.0%
Consolidated Comprehensive Net Income	$ 5,688	3.8%	$ 4,584	3.5%

Food and Beverage Revenue

The Company reported revenue of $145.1 million for the three months ended April 3, 2022, representing an increase of 8.4% over prior year's sales of $133.8 million for the three months ended April 4, 2021. Total Company "same store sales" (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) increased by 6.8% for three months ended April 3, 2022, when compared to the same period in the prior year.

The Company's Wendy's restaurants reported sales of $142.6 million for the three months ended April 3, 2022, representing an increase of 7.7% over prior year's sales of $132.4 million for the three months ended April 4, 2021. The Company's Wendy's restaurants experienced a "same store sales" increase of 6.3% for the three months ended April 3, 2022, when compared to the same period in the prior year. The sales increase is primarily the result of significant price increases deployed over the last year, as well as a net addition of restaurants through new build efforts.

The Company's independent concept restaurants reported sales of $2.5 million for the three months ended April 3, 2022, representing an increase of 70.7% from prior year sales of $1.4 million for the three months ended April 4, 2021. Independent concept restaurants experienced a "same store sales" increase of 47.3% for the three months ended April 3, 2022, when compared to the same period in the prior year. The increases reflect the impact of both closed and limited operations in 2021 due to the COVID-19 pandemic.

Cost of Food and Beverage

The cost of food and beverage increased to 26.9% of revenue for the three months ended April 3, 2022, from 25.1% of revenue for the three months ended April 4, 2021. The increase primarily represents industry wide inflationary increases, including a 41.0% increase in the average cost of beef for the three months ended April 3, 2022, when compared to the same period in the prior year. In response to the ongoing impact of inflation and evolving market conditions, the Company has deployed significant and strategic price increases, primarily concentrated in the third and fourth quarter of 2021.

Labor and Related Expenses

Labor and related expenses increased to 33.1% of revenue for the three months ended April 3, 2022, from 30.4% of revenue for the three months ended April 4, 2021. The significant increase in overall labor costs primarily reflects the inflationary impact of market wage competition, increased hourly wage rates, and additional over-time wages resulting from reduced available staff.

Occupancy Expenses

Occupancy expenses as a percent of revenue decreased to 13.1% of revenue for the three months ended April 3, 2022, from 13.9% of revenue for the three months ended April 4, 2021. The decrease represents the dilutive impact of fixed costs from increased sales over the prior year, slightly offset by the rising cost of certain utilities, such as natural gas.

Other Operating Expenses

Other operating expenses increased to 9.0% of revenue for the three months ended April 3, 2022, from 8.6% of revenue for the three months ended April 4, 2021. The increase represents the impact on goods and services from market wide inflation, various repair initiatives, and increased technology service fees assessed by the Wendy's Company.

General and Administrative Expenses

General and administrative expenses decreased to 4.4% of revenue for the three months ended April 3, 2022, from 6.1% of revenue for the three months ended April 4, 2021. The decline is primarily due to decreased incentive compensation accruals which are based on financial performance.

Preopening, Acquisition and Closing Expenses

Preopening and acquisition expenses generally represent costs associated with opening new locations, concepts, or product lines in addition to restaurant reimaging and acquisitions.

Closing expenses generally represent actual and estimated costs related to the closure of under-performing restaurants. Closing and disposition expenses are expected to be ongoing due to continuing efforts to improve the Company's overall restaurant portfolio.

Depreciation and Amortization

The increase in the amount of depreciation and amortization expense represents additional asset purchases from new restaurant construction and reimaging efforts when compared to the prior year, which had lower construction activity due to lingering effects of the COVID-19 pandemic.

Interest Expense

The decrease in the amount of interest expense is primarily due to a decline in the effective interest rate on variable debt over the prior year, as well as favorable fixed interest rates obtained on the swap agreement in the Company's August 2021 refinancing. Effective with the refinancing, the Company implemented a change in accounting principle to recognize the change in fair value of its swap agreements through other comprehensive income, a component of equity.

Interest expense is summarized as follows:

	04/03/22 (in thousands)	04/04/21 (in thousands)
Interest expense - swap	$ -	$ (447)
Interest expense	1,700	2,257
Total interest expense	$ 1,700	$ 1,810

Other Expense (Income)

Other Expense (Income) generally represents gains on real estate transactions completed throughout the year, which are partially offset by stock option expense. The decrease in income is primarily due to the profitability of sale and leaseback transactions for the three months ended April 3, 2022, when compared to sale and leaseback transactions for the same period in the prior year.

Income Tax Expense

Income tax expense is summarized as follows:

	04/03/22 (in thousands)	04/04/21 (in thousands)
Federal income tax expense	$ 359	$ 380
State and local income tax expense	261	260
Change in deferred income taxes	(473)	825
Total Income tax expense	$ 147	$ 1,465

Financial Condition

Management monitors short and long-term cash needs and believes that with its ongoing operations and current cash balances, the Company has sufficient capital and liquidity to meet its ongoing obligations. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. As of April 3, 2022, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of April 3, 2022.

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 condition. 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 6, 2022

Robert E. Schermer, Jr.
Chief Executive Officer

I, Tracey A. Smith, 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 6, 2022

Tracey A. Smith
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," "would," and similar expressions (including the negative versions), 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 actions 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 preferences, 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 or other food safety issues; promotions and price discounting by competitors; severe weather; changes in travel patterns; road construction; demographic trends; failure to manage social media trends; inflation, including related increases in the cost of food, labor and energy; supply chain interruptions; 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; risks associated with leasing real property; 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; security, including cyber security and information technology security; credit card fraud; Meritage's ability to consummate acquisitions or, if consummated, to successfully integrate acquired businesses into Meritage's operations; Meritage's execution of growth initiatives; and the recurring need for restaurant 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, other labor and employment matters, and the operation of its restaurants. Meritage is also subject to risks and uncertainties related to disruptions to or reductions in business operations, liquidity, prospects or supply chains due to pandemics, epidemics, widespread health emergencies, or outbreaks of infectious diseases such as the coronavirus disease COVID-19, its variants and developments related to these types of events. Because Meritage's operations are concentrated in certain areas of Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Virginia, significant economic changes in these states, or in the local economies where our restaurants are located, could adversely affect our operations. Additionally, with Meritage's expansion, the Company could be adversely affected by tropical storms, hurricanes, or tornadoes. 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.