Meritage Hospitality Group Inc.
Annual Disclosures

For Fiscal Year Ended January 3, 2016

Part A General Company Information

Item 1 The exact name of the issuer and its predecessor (if any).

The name of the Company is Meritage Hospitality Group Inc. (the "Company" or "Meritage").

Item 2 The address of the issuer's principal executive offices.

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

Item 3 The jurisdiction and date of the issuer's incorporation or organization.

The Company was incorporated under the laws of the State of Michigan in August 1986.

Part B Share Structure

Item 4 The exact title and class of securities outstanding.

The Company's Articles of Incorporation authorize 30,000,000 common shares (Par Value Per Share $0.01). There were 5,651,242 common shares outstanding at January 3, 2016. The shares are assigned CUSIP No. 59000K309 and are quoted on the OTC Markets under the symbol "MHGU".

The Company's Articles of Incorporation authorize 5,000,000 preferred shares (Par Value Per Share $0.01). 200,000 Series A Convertible Preferred Shares were authorized in 1996, and there are 29,520 Series A Convertible Preferred Shares outstanding. 500,000 Series B Convertible Preferred Shares were authorized in 2003 and an additional 850,000 were authorized in December 2010. There are 856,000 Series B Convertible Preferred Shares outstanding. The Series B shares are assigned CUSIP No. 59000K408 and trade on the OTC Markets under the symbol "MHGUP".

Item 5 Par or stated value and description of the security.

Common Shares: The Company paid a $0.01 cash dividend on its common shares in 2012, $0.02 cash dividends in 2013, $0.03 cash dividends in 2014, and $0.06 cash dividends in 2015. The Company's Board of Directors will consider additional dividends on common shares in the future but has not adopted a dividend policy. State law and certain of the Company's governance documents and loan agreements may limit the Company's ability to declare cash dividends.

Series A Convertible Preferred Shares: The Company has 29,520 Series A Convertible Preferred Shares ("Series A Preferred Shares") outstanding. Each Series A Preferred Share has an annual dividend rate of $0.90 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. The holders may convert their Series A Preferred Shares into common shares at a conversion price of $7.00 for each common share. The conversion rate is subject to adjustment in the event of stock splits, stock dividends, combinations, reclassifications and similar occurrences. The Company may cause the Series A Preferred Shares to be converted at its option at any time if the average of the closing sale prices for the Company's common shares is at least 120 percent of the then effective conversion price for at least 20 trading days within the period of 30 consecutive trading days. Upon any dissolution or winding up, the holder of each Series A Preferred Share will be entitled to receive a liquidation value of $10.00 per Series A Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except that should the Company miss six consecutive quarterly dividend payments, the holders of the Series A Preferred Shares, voting as a class with each Series A Preferred Share having one vote, would be entitled to elect two additional directors to the Company's Board of Directors, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

Series B Convertible Preferred Shares: The Company has 856,000 Series B Convertible Preferred Shares ("Series B Preferred Shares") outstanding. The Series B Preferred Shares have an annual dividend rate of $0.80 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. The holders may convert their Series B Preferred Shares into common shares at a conversion price of $5.57 per common share. The conversion rate is subject to adjustment in the event of stock splits, stock dividends, combinations, reclassifications and similar occurrences. The Company may, upon 15 days written notice, redeem all or part of the Series B Preferred Shares at a redemption price of $10.00 per Series B Preferred Share plus accrued but unpaid dividends. Upon any dissolution or winding up, the holder of each Series B Preferred Share will be entitled to receive a liquidation value of $10.00 per Series B Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except as required by law and with the exception that, if at any time the Company fails to make six quarterly dividend payments, the holders of the Series B Preferred Shares, voting as a class with each Series B Preferred Share having one vote, would be entitled to elect two directors to the Board, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

The Company does not have specific provisions designed to prevent a change in control. However, there are numerous provisions in various documents (articles of incorporation, bylaws, franchise agreements, loan agreements, equity award agreements, etc.) that could effectively delay or hinder an attempted change in control.

Item 6 **The number of shares or total amount of the securities outstanding for each class of securities authorized.**

	01/03/2016	12/28/2014
Common Shares		
Authorized:	30,000,000 shares	30,000,000 shares
Outstanding:	5,651,242 shares	5,607,523 shares
Freely Tradable (public float):	approx. 3,000,000 shs.	approx. 3,000,000 shs.
Number of beneficial holders owning at least 100 shares:	approx. 360	approx. 383
Number of record holders:	approx. 95	approx. 100
Preferred A		
Authorized:	200,000 shares	200,000 shares
Outstanding:	29,520 shares	29,520 shares
Freely Tradable (public float):	29,520 shares	29,520 shares
Number of record holders:	2	2
Preferred B		
Authorized:	1,350,000 shares	1,350,000 shares
Outstanding:	856,000 shares	746,000 shares
Freely Tradable (public float):	300,000 shares	300,000 shares
Number of record holders:	39	38

Item 7 **The name and address of the transfer agent.**

American Stock Transfer and Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Phone: (718) 921-8200

American Stock Transfer and Trust Company is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Transfer Agent Act. Their procedures and transactions are regulated and audited by the Securities and Exchange Commission ("SEC").

Part C Business Information

Item 8 The nature of the issuer's business.

Refer to Forward-Looking Statements following Item 21 of this annual disclosure.

Summary

Meritage operates 161 Wendy's quick-service restaurants. The Company's Wendy's restaurants are a franchisee of Quality Is Our Recipe, LLC, a subsidiary of The Wendy's Company. To simplify the language in this disclosure, Quality Is Our Recipe, LLC will hereafter be referred to as The Wendy's Company. The Company operates 46 Wendy's restaurants in Western and Southern Michigan, 49 in the Jacksonville, Florida area, 38 in the Atlanta, Georgia area, two in North Carolina, one in South Carolina, 10 in the Richmond, Virginia area, and 15 in Toledo, Ohio. Through its development and acquisition efforts, the Company is one of the nation's largest Wendy's franchisees.

The Company also owns and operates five casual dining restaurants in Michigan, through three brands consisting of three Twisted Rooster locations, one Crooked Goose location, and one Freighters Eatery & Taproom location. In 2010, the Company launched its own original casual dining concept, Twisted Rooster, which is a casual dining restaurant with a fresh look and dynamic menu focused on current customer trends. The emphasis is on fresh, local products prepared with a twist, including local beers, wines and liquors. In 2012 the Company opened Crooked Goose, a classic corner pub that features old-school pub favorites with a twist. In 2013, the Company opened the doors of its newest casual dining concept, Freighters Eatery & Taproom. The come-as-you-are atmosphere is warm and inviting, with locally-sourced art that reflects elements of the freighters passing by on the St. Clair river. All the casual dining restaurants are committed to locally-sourced, Michigan-made products.

Meritage has approximately 5,100 employees, of which approximately 1,400 are full-time. The Company was assigned a primary SIC Code of 5812 (Retail-Eating Places). Meritage was incorporated under the laws of the State of Michigan in August 1986. The Company's consolidated financial statements include the accounts of Meritage Hospitality Group Inc. and all of its wholly-owned subsidiaries, consisting of MHG Food Service Inc., OCM Development, LLC, WM Limited Partnership-1998, Wen South, LLC, Wen Georgia LLC, Wen Carolina's LLC, Wen Virginia LLC, Wen Ohio LLC, 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. For convenience, Meritage and its subsidiaries are collectively referred to as "Meritage" or "the Company" throughout this report.

The Company operates on a 52/53 week fiscal year ending on the Sunday closest to December 31st of each year.

Risks and Governmental Regulations

Meritage is subject to numerous uncertainties and risk factors inherent in the food service industry. These include, among others: competition; changes in local and national economic conditions; changes in consumer tastes and eating habits; concerns about the nutritional quality of quick-service or casual dining menu items; concerns about consumption of beef or other menu items due to food-borne diseases; promotions and menu price discounting by competitors; severe weather; changes in travel patterns; road construction; demographic trends; the cost of food, labor, fuel and energy; the availability and cost of suitable restaurant sites; the ability to finance expansion; fluctuating interest rates; insurance costs; the availability of an adequate number of managers and hourly-paid employees; directives issued by its franchisor regarding the Company's Wendy's operations; its franchisor's national marketing and advertising programs; its franchisor's advertised pricing; the general reputation of Meritage's and its franchisor's restaurants; legal claims; and the recurring need for renovation and capital improvements.

Also, the Company is subject to various federal, state and local laws and governmental regulations relating to, among other things: zoning; restaurant operations; public health certification regarding the preparation and sale of food; alcoholic beverage control; discharge of materials into the environment; sanitation; and minimum wage laws. The Company believes its operations would be adversely affected if these permits or other applicable permits or approvals were not obtained or renewed, or were terminated. While the Company has no reason to anticipate that this may occur, it can give no assurances in this regard. In addition, changes regarding minimum wage laws or other laws governing the Company's relationship with its employees (e.g. overtime wages and tips, health care coverage, employment of minors, citizenship/immigration requirements, working conditions, etc.) could have an adverse effect on the Company's operations.

Approximately 20% of the Company's casual dining restaurant sales are attributable to the sale of alcoholic beverages. Each casual dining restaurant has licenses from regulatory authorities allowing it to sell liquor, beer and wine. The failure of a restaurant to obtain or retain liquor service licenses could adversely affect the Company' operations. Once a liquor license is obtained, Meritage is subject to "dram-shop" statutes and interpretations which generally provide that a person who is injured by an intoxicated person has the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

The Federal Americans With Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. The Company's restaurants are designed to be accessible to the disabled and we believe that we are in substantial compliance with all current applicable regulations relating to restaurant accommodations for the disabled. The development and construction of additional restaurants will be subject to compliance with applicable zoning, land use and environment regulations.

Legal Proceedings

The Company is involved in various routine legal proceedings that are incidental to its business. All of these proceedings arise 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. In addition, several legal claims are regularly assumed by the Company's vendors.

Stock Split and Other Listing Developments

In January 2007, a majority of outstanding common shares voted in favor of a delisting and deregistering transaction by means of a reverse stock split of the Company's issued and outstanding common shares at a ratio of 1-for-300, followed immediately by a 300-for-1 forward stock split of common shares (the "Transaction"). Each record shareholder of fewer than 300 common shares immediately prior to the reverse stock split had such shares cancelled and converted into the right to receive $5.25 for each common share held immediately prior to the reverse stock split. The common shares of each record shareholder of 300 or more shares prior to the reverse stock split remained unchanged after the Transaction. As a result of the Transaction, the Company had fewer than 300 record common shareholders, allowing the Company to terminate its registration of common shares with the SEC under the Exchange Act.

In 2007, the Company's common shares were listed on the OTC Markets under the symbol "MHGU." The listing is under the OTCQX premium listing service intended to set apart a select group of issuers that the OTC Markets deem worthy of heightened consideration by investors. The OTCQX is designed to meet the needs of small to medium-sized, publicly-traded U.S. companies. The Company was recently recognized as one of the top five Best 50 Companies on the OTCQX.

In 2012, the Company's Series B Preferred Shares were listed on the OTC Markets using the OTCQX premium listing service under the symbol "MHGUP".

Item 9 The nature of products or services offered.

Wendy's Operations

The Company operates Wendy's restaurants in Western and Southern Michigan, Northeast and Northwest Florida, Northwest Georgia, Southern North Carolina, Northern South Carolina, Northeast Virginia, and Northern Ohio.

Menu

Each Wendy's restaurant offers a diverse menu of food items featuring hamburgers and chicken breast sandwiches, all of which are prepared to order with the customer's choice of condiments. The Wendy's menu also includes chili, baked and french fried potatoes, chicken nuggets, freshly prepared salads, soft drinks, "Frosty" desserts and children's meals. Each Wendy's restaurant features soft drink products supplied by the Coca Cola Company and its respective affiliates. The franchisor maintains significant discretion over the menu items that are offered in the Company's restaurants.

Restaurant Layout and Operation

The Company's Wendy's restaurants typically range from 2,700 to 3,400 square feet with seating capacity for 40 to 130 people, and are generally open from 10:00 a.m. until midnight. Restaurants feature a pick-up drive-through window. Sales to drive-through customers account for approximately two-thirds of total restaurant sales.

Marketing and Promotion

The franchisor requires at least 4% of the Company's restaurant sales be contributed to an advertising and marketing fund, 3.5% of which is used to benefit all Wendy's restaurants in national advertising programs. The Wendy's National Advertising Program uses these funds to develop advertising and sales promotion materials and concepts to be implemented nationally. The remainder is used on local advertising. The Company typically spends local advertising dollars in support of radio advertising, print media, local promotions and community goodwill projects.

Raw Materials and Energy

The Company's restaurants comply with uniform recipe and ingredient specifications provided by the franchisor. Food and beverage inventories and restaurant supplies are purchased from independent vendors that are approved by the franchisor. The Company has not experienced any significant shortages of food, equipment, fixtures or other products that are necessary to restaurant operations. While no such shortages are anticipated at this time, the Company believes that alternate suppliers are available if any shortage were to occur.

The Company's principal sources of energy for its Wendy's operations are electricity and natural gas. The supply of energy available to the Company has been sufficient to maintain normal operations.

Seasonality

The Company's business is subject to various seasonal fluctuations. Michigan traffic typically increases during the summer months, resulting in increased revenues during those months. Traffic in the southern states typically increases during the early spring months, resulting in increased revenues during those months.

Relationship with Franchisor

Meritage operates its Wendy's restaurants pursuant to various agreements (including one franchise agreement for each restaurant) with its franchisor, The Wendy's Company. These agreements grant privileges to the Company such as the right to utilize trademarks, service marks, designs and other proprietary rights in connection with the operation of its Wendy's restaurants. These agreements also impose requirements on the Company regarding the preparation and quality of food products, the level of service, capital improvements, and general operating procedures. The remaining terms of the Company's franchise agreements (including options to renew) range from 1 to 30 years.

The franchise agreements provide, among other things, that a change in the operational control of the Wendy's operating entity, or the removal of a guarantor of the franchise agreements, cannot occur without the prior consent of the franchisor. In addition, any proposed sale of a Wendy's restaurant, ownership interests or franchise rights therein is subject to the consent of, and a right of first refusal by, the franchisor. These agreements also grant the franchisor wide discretion over many aspects of the restaurant operations, and often require the consent of the franchisor to carry out certain operational transactions pertaining to the Wendy's restaurants. If Meritage needs the consent of its franchisor to proceed with its business plans and such consent is not obtained, Meritage will not be able to proceed with its plans which, in turn, could adversely affect Meritage's growth strategy. If Meritage were to proceed without the franchisor's consent when required, the franchisor could terminate the franchise agreements or exercise its right to purchase the Wendy's restaurants.

In addition to monthly fees, Meritage is required to pay the franchisor a technical assistance fee upon the opening of a new Wendy's restaurant. Meritage is permitted to develop new Wendy's restaurants subject to the standard expandability criteria and site standards of the franchisor. While the franchise agreements are in place, Meritage is prohibited from acquiring or developing any other types of quick-service restaurants within its designated market area ("DMA"), or outside of them if the restaurant sells hamburgers, chicken sandwiches or products similar to the franchisor, and is located within a three mile radius of another Wendy's restaurant. For two years after the expiration or termination of the franchise agreements, Meritage is prohibited from participating in any quick-service restaurant business that sells hamburgers, chicken sandwiches or products similar to the franchisor, and is located within its DMA.

The reputation of Meritage's restaurants is largely dependent on the reputation of the entire Wendy's restaurant chain, which in turn is dependent upon the management and financial condition of The Wendy's Company and the performance of Wendy's restaurants operated by other Wendy's franchisees. Should The Wendy's Company be unable to compete effectively with similar restaurant chains in the future, Meritage would be materially and adversely affected. Furthermore, many of the attributes which lead to the success of Wendy's operations are factors over which Meritage has no control, such as national marketing, introduction of new products, quality assurance and other operational systems. Meritage cannot conduct its Wendy's operations without its affiliation with its franchisor. Any termination of the franchise agreements would have a material adverse effect on Meritage's financial condition and results of operations.

Casual Dining Operations

The Company also owns and operates three casual dining concepts throughout Michigan, comprised of three Twisted Rooster locations, one Crooked Goose location and one Freighters Eatery & Taproom location.

In 2010, Meritage launched its first independent casual dining concept, Twisted Rooster. The first location opened in 2010, followed by two additional locations in 2011. The three Twisted Roosters located in Grand Rapids, Belleville and Chesterfield are family friendly, and feature dynamic menus focused on current customer trends. Twisted Rooster's menu focuses on the utilization of fresh, local ingredients in their recipes which are made daily from scratch. It also features a wide variety of local craft beer, wine and liquors.

The success of Twisted Rooster led to the development of the Crooked Goose in 2012. Crooked Goose is a classic corner pub that features old-school pub favorites with a twist. Like its affiliate eatery, Crooked Goose is committed to locally-sourced, Michigan-made products. The restaurant also offers a wide variety of Michigan beer, wine and signature cocktails.

In 2013, the Company opened the doors of its newest casual dining concept, Freighters Eatery & Taproom in Port Huron, Michigan. Connected to a Hilton DoubleTree Hotel, Freighters provides a unique waterfront dining experience for every guest. The restaurant serves as a culinary destination, situated on the St. Clair River, overlooking the serene Blue Water Bridge with freighters passing by. Freighter's extensive dine-in, banquet and room service menus all feature locally sourced menu options, as well as a wide variety of Michigan-sourced libations.

Menu

The Twisted Rooster menu features classic American fare with dynamic twists at a reasonable price. The menu is guided by fresh, seasonally local ingredients combined with bold flavors for simply twisted results. The goal of the local focus is to "Commit to the Mitt" by partnering with local vendors and suppliers to reinvest in the state of Michigan. The Twisted Rooster menu includes locally sourced steaks, signature sandwiches, fresh fish, pasta plates, Twisted Rooster's signature macaroni and cheese, fresh-cut salads with signature dressings and homemade desserts. Also offered are a wide variety of alcoholic beverages including beer, wine and cocktails. The restaurants serve lunch, dinner and special menu items including seasonal promotions, daily special selections and a special kids menu. Twisted Rooster restaurants offer curbside takeout.

The Crooked Goose is a classic corner pub that features old-school pub favorites with a twist. Their wings, pizzas and burgers are just a few of the tantalizing menu options that were specially created by the Company's executive chef. Like its affiliate eatery, Twisted Rooster, Crooked Goose is committed to locally-sourced, Michigan-made products. The teammates are focused on creating a unique dining experience, complete with distinctive food and drinks in an energetic atmosphere. Its daily food and drink specials, dynamic wait staff and sixteen flat screen televisions all come together in a plaid exterior. The restaurant features special menus for lunch and dinner. It also offers curbside takeout.

The menu at Freighters Eatery & Taproom features imaginative twists on what might otherwise be considered “typical” American favorites. Like all of the Company’s casual dining restaurants, Freighters focuses on showcasing the great local products in each of its menu items. Its seasonally changing menus offer a selection of appetizers, specialty entrees and desserts. Even the full-service bar is stocked with locally-sourced libations, from craft beers, wines and sodas to small-batch liquors, which are used as a base for various specialty cocktails. It also has a full service breakfast buffet, available daily. The restaurant serves breakfast, lunch, dinner and room service. It also serves as the exclusive caterer for the adjoining hotel, and features a variety of corporate and private event catering packages.

Restaurant Layout and Operation

Twisted Rooster’s fresh look is intent on reflecting current customer trends and creating impeccable food and drinks in an energetic atmosphere. The buildings are freestanding brick structures with 5,000 to 6,000 square feet with awnings and attractive landscaping that accommodate between 190 and 245 guests, including 50 to 100 bar seats. The modern interior is designed to be fun and energetic, featuring contemporary pieces by local artists. The kitchen is designed to provide flexibility and efficiency as well as allow for continuing menu innovations.

The Crooked Goose was established as a neighborhood restaurant and bar. With its eclectic mix of antique bar and lighting, it was designed to make you feel at home. The 3,200 square foot end cap space will accommodate 120 patrons, including 15 bar seats.

Freighters Eatery & Taproom is incredibly unique with its large windows and outdoor patio featuring a stunning waterfront view for its guests. The 11,105 square foot restaurant also features 11 flat-screen TV’s, a 21 seat bar and fireplace lounge for guests to enjoy. The come-as-you-are atmosphere is warm and inviting, with locally-sourced art reflecting elements of the freighters passing by.

Marketing and Promotion

The advertising efforts for Twisted Rooster, Crooked Goose and Freighters are entirely focused on their local markets. Promotional efforts are aimed at building brand loyalty and emphasizing the distinctiveness of each location’s food, service, atmosphere and commitment to supporting the local economy. Their “grassroots” campaigns include philanthropic community involvement, participation in local events and support of local media outlets among other initiatives. Social media, digital and mobile marketing also play a large role in their advertising strategy, as the online conversation and consumer review systems grow larger.

Raw Materials and Energy

The Company’s Twisted Rooster, Crooked Goose and Freighters restaurants comply with internal recipe and ingredient specifications. Food and beverage inventories and restaurant supplies are purchased from third party suppliers. The Company has not experienced any significant shortages of food or other products that are necessary to restaurant operations. While no such shortages are anticipated at this time, the Company believes that alternate suppliers are available if any shortage were to occur.

The Company’s principal sources of energy for its casual dining restaurants are electricity and natural gas. The supply of energy available to the Company has been sufficient to maintain normal operations.

Competition and Industry Conditions

Meritage operates restaurants within the quick-service restaurant ("QSR") industry and the full-service, casual dining restaurant industry.

QSR Industry

Meritage operates its Wendy's restaurants within the quick-service restaurant ("QSR") industry. The QSR industry is characterized by customers who are looking for quick, convenient and value-oriented meals that are ordered, paid for and picked up at a cash register. Within the quick-service industry, the hamburger segment comprises approximately half of the market and is dominated by McDonald's, Wendy's and Burger King. Pizza, chicken, other sandwich, and Mexican and Asian market segments comprise a significant portion of the remainder of the QSR industry.

Most of the Company's Wendy's restaurants are located in close proximity to their principal QSR competitors which are highly competitive on the basis of price and value perception, service, location, food quality, menu variety, quality and speed of service, attractiveness of facilities, and effectiveness of marketing and new product development. The Company also competes within the food service industry and the QSR restaurant sector not only for customers, but also for personnel and suitable real estate sites. The Company believes the competitive position of a Wendy's restaurant is ultimately enhanced by its unique qualities such as the use of fresh ground beef, a diverse menu, its promotional products, food prepared to order with an emphasis on quality, nutrition and taste, pleasant and speedy service and atmosphere. Wendy's continues to implement its reimaging program, which includes innovative exterior and interior restaurant designs, with plans for significantly more new and reimaged restaurants in 2015 and beyond. The program also differentiates the Company from its competitors by its emphasis on restaurant employees who provide friendly and engaged customer service.

Casual Dining Restaurant Industry

The Company operates its Twisted Rooster, Crooked Goose, and Freighters Eatery & Taproom restaurants within the casual dining industry. The casual dining restaurant industry services customers interested in high-quality, value-oriented, full service meals with wait staff taking orders and available throughout the meal. The bill is paid at the table after the meal is eaten. This industry benefits from the spending of baby-boomers (40 to 60 year olds), the nation's largest demographic group in their peak earning years.

As with its Wendy's restaurants, the Company's casual dining restaurants are located in close proximity to their principal casual dining restaurant competitors who are highly competitive on the basis of price and value perception, service, location, food quality, menu variety, quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development.

Item 10 The nature and extent of the issuer's facilities.

Each Wendy's restaurant is built to the franchisor's specifications for exterior style and interior decor. Typical freestanding restaurants are one-story brick buildings constructed on sites of approximately 40,000 square feet, with parking for 50 to 70 vehicles. The restaurants typically have a food preparation area, a dining room with seating capacity for 40 to 130 guests, and a pick-up window for drive-through service.

The Company remains focused on reimaging its Wendy's restaurants with a goal of 60 percent of its portfolio upgraded by 2020. Reimaging costs range from $250,000 to $475,000 per restaurant. Currently, the Company has reimaged approximately 11 percent of its Wendy's restaurant portfolio.

Of the 161 Wendy's restaurants it operates, the Company (i) owns the land and buildings comprising 14 restaurants, (ii) leases the land and buildings comprising 142 restaurants, and (iii) owns the building and leases the land comprising five restaurants. The remaining lease terms (including options to renew) range from 1 to 50 years. The structures are between one and approximately 42 years old. Meritage has performed major remodels on a number of its older Wendy's restaurants in the last several years. The land and buildings owned by the Company are subject to mortgages.

The Company operates five casual dining restaurants, one that is owned, three that are leased, and one where the building is owned and the land is leased. The remaining term of the building and land leases (including options to renew) are between 22 and 45 years. The remaining term of the land lease (including options to renew) is 23 years. The land and buildings owned by the Company are subject to mortgages.

Each Twisted Rooster casual dining restaurant is a freestanding structure with 5,000 to 6,800 square feet, accommodating 190 to 245 patrons, including 50 to 100 bar seats. The atmosphere is open with a partially exposed kitchen and unique décor. The exterior is brick with awnings and attractive landscaping. The interior is designed to be fun, current and energetic.

The Company's Crooked Goose casual dining restaurant is a 3,200 square foot site in the end cap space of a shopping center. The restaurant will accommodate 120 patrons, including 15 bar seats. Crooked Goose was established as a neighborhood restaurant and bar designed to make you feel at home.

The Company's newest casual dining restaurant, Freighters Eatery & Taproom, is a 11,105 square foot site connected to a DoubleTree by Hilton hotel. The restaurant will accommodate 286 patrons, including 21 bar seats and 44 patio seats. The come-as-you-are atmosphere is warm and inviting, with locally-sourced art that reflects elements of the freighters passing by.

The Company leases office space at 3310 Eagle Park Drive, N.E., Suite 205, Grand Rapids, Michigan, which serves as the registered office and principal place of business of the Company. The lease term runs through June 2016. Subsequent to this date the Company's office space will be relocating to downtown Grand Rapids under the terms of a new ten year lease with three 5-year renewal options.

Part D Management Structure and Financial Information

Item 11 The name of the chief executive officer, members of the board of directors, as well as control persons.

Board Members and Officers at January 3, 2016:

Name and Age	Position	Total Shares Beneficially Owned Amount (1)	Percentage
Robert E. Schermer, Sr., 80	Chairman of the Board of Directors	1,360,243	24.1%
Robert E. Schermer, Jr., 57	Chief Executive Officer, President and Director	1,654,851	29.3%
Gary A. Rose, 53	Vice President, Chief Financial Officer, Chief Operating Officer, Secretary & Treasurer	488,662	8.6%
James P. Bishop, 75	Director	167,997	3.0%
Duane F. Kluting, 66	Director	122,979	2.2%
Joseph L. Maggini, 76	Director	709,949	12.6%
Peter D. Wierenga, 61	Director	453,370	8.0%
All Current Executive Officers and Directors as a Group (7 persons)		4,958,051	87.7%

(1) Represents beneficial ownership of Company stock including commons shares, options presently exercisable or exercisable within 60 days and shares underlying Series B Convertible Preferred Shares.

Robert E. Schermer, Sr. has been Chairman of the Board of Directors since 1996. Mr. Schermer is currently retired. From 1990 through 2005, he was Senior Vice President and a Managing Director of Robert W. Baird & Co. Incorporated, an investment banking and securities brokerage firm headquartered in Milwaukee, WI. Mr. Schermer's business address is 3310 Eagle Park Drive NE, Suite 205, Grand Rapids, MI 49525.

Robert E. Schermer, Jr. has been a director of the Company since 1996. He has been Chief Executive Officer of the Company since 1998. Mr. Schermer served as President of the Company from October 1998 through October 2000, and since February 2004. Mr. Schermer's business address is 3310 Eagle Park Drive NE, Suite 205, Grand Rapids, MI 49525.

Gary A. Rose has been Vice President, Chief Financial Officer and Treasurer of the Company since 2005, Chief Operating Officer since 2006, and Secretary since 2008. Mr. Rose is a CPA and spent six years with Deloitte & Touche in Grand Rapids, MI. Mr. Rose's business address is 3310 Eagle Park Drive NE, Suite 205, Grand Rapids, MI 49525.

James P. Bishop has been a director of the Company since 1998. He is a CPA and a retired consultant with Seber Tans PLC accounting firm in Kalamazoo, Michigan. Prior to that, Mr. Bishop was the President and majority owner of the Bishop, Flipse & Meyer, P.C. accounting firm in Kalamazoo, Michigan, where he was employed since 1973. Mr. Bishop's business address 3291 Springbrook Ave., Kalamazoo, MI 49004.

Duane F. Kluting has been a director of the Company since 2005. Mr. Kluting is currently retired. From 1992 through 2003, Mr. Kluting served as Vice President, Chief Financial Officer and Corporate Secretary of X-Rite, Incorporated, a developer and manufacturer of color measurement instrumentation and software used in graphic arts, retail and industrial applications. Mr. Kluting's business address is 2525 Keyton Ct NW, Grand Rapids, MI 49504.

Joseph L. Maggini has been a director of the Company since 1996. Mr. Maggini is the President and Chairman of the Board of Magic Steel Corporation, a steel service center located in Grand Rapids, Michigan since founding the company in 1974. Mr. Maggini's business address is 4242 Clay Street SW, Grand Rapids, MI 49548.

Peter D. Wierenga has served as a director of the Company since 2010. He was the Vice President and director of Godwin Plumbing, Inc., a plumbing and mechanical contractor, from 1987 through 2015. Concurrently, Mr. Wierenga has also been the President and director of Godwin Hardware Stores, a retail hardware company, since 1988. Mr. Wierenga was a co-founder and currently serves as Vice President of Millennia Technology, Inc., a leader in VOIP telephony. Mr. Wierenga also serves as Chairman of the Board of FirsTime Design Limited, a Wisconsin manufacturer of wholesale clocks.

The non-employee directors are compensated in accordance with the compensatory plans outlined in Item 17 below. In fiscal 2015, each of the non-employee directors received an option grant of 10,000 common shares priced at $7.07 per share (the closing price on the date of the grant). In fiscal 2015, the non-employee directors received compensation for attendance at Board and Committee meetings as follows: Mr. Bishop: $12,000 (paid in 1,511 common shares); Mr. Kluting: $12,000 (paid in 1,511 common shares); Mr. Maggini: $4,000 (paid in 505 common shares); Mr. Schermer, Sr.: $4,000 (paid in 505 common shares); and Mr. Wierenga: $4,000 (paid in 505 common shares).

The Board of Directors establishes and oversees the Company's executive officer compensation policies and incentive awards. Mr. Schermer, Jr. earned a base salary of $208,000 plus an annual car allowance of $10,500. Mr. Rose earned a base salary of $180,000 plus an annual car allowance of $8,400. In fiscal 2015, each executive officer also received 30,000 stock option grants priced at $5.00 per share (the closing price on the date of the grant). The Company also has a deferred compensation program and a bonus program in place for executive officers. Deferred compensation earned and accrued in fiscal 2015 was approximately $326,000 for each executive officer. Bonuses earned and accrued in fiscal 2015 were approximately $628,000 for each executive officer.

Legal/Disciplinary History

None.

Disclosure of Family Relationships

Robert E. Schermer, Sr. is the father of Robert E. Schermer, Jr. In addition, Mr. Schermer, Jr. is the sole owner of Terra Libre, LLC, a Michigan limited liability company that owns 521,921 common shares.

Related Party Transactions

The Company's CEO is a co-managing member of a real estate development project of which the Company owns 11.2 percent, and investment value of $275,000. In addition, the Company leases space for a casual dining restaurant with annual rents of $46,000 from an entity for which the CEO is the sole managing member.

In November 2012, the Company entered into a $200,000 mortgage note with one of its independent directors. The note bears interest of 8.0 percent and matures in December 2017.

Robert E. Schermer, Jr. has provided personal guarantees to The Wendy’s Company for the Wendy's franchise agreements, as well as personal guarantees to a bank for certain of the Company's debt facilities.

Conflicts of Interest

None.

Item 12 Financial information for the issuer’s most recent fiscal period.

See audited consolidated financial statements for fiscal year ended January 3, 2016, separately posted on the OTC Markets website (www.otcmarkets.com/otcqx/home) for Meritage and incorporated by reference in this Annual Report. The audited consolidated financial statements include the following reports:

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

Item 13 Similar financial information for such part of the preceding two fiscal years as the issuer or its predecessor has been in existence.

See audited financial statements for the Company’s preceding two fiscal years separately posted on the OTC Markets website (www.otcmarkets.com/otcqx/home) for Meritage and incorporated by reference in this Annual Report. Each year’s audited consolidated financial statements include the following reports:

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

Item 14 Beneficial Owners.

Other than certain of Meritage’s directors and officers as identified in Item 11 above, no other shareholders are believed by the Company to beneficially own 5% or more of the Company’s outstanding common shares.

Item 15 The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to the operations, business development and disclosure:

Legal Counsel: Keating Muething & Klekamp PLL
c/o F. Mark Reuter, Esq.
One East Fourth Street, Suite 1400
Cincinnati, OH 45202-3752
(513) 579-6400
mreuter@kmklaw.com

Auditors: Plante & Moran, PLLC
License #: 1102002948 (State of Michigan)
c/o Michael Lamfers
634 Front Avenue, NW
Suite 400
Grand Rapids, MI 49504
(616) 774-8221
Michael.lamfers@plantemoran.com

Plante & Moran, PLLC conducted an audit of the consolidated financial statements of Meritage in accordance with generally accepted auditing standards.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Accordingly, the fairness of representations made throughout the financial statements is an implicit and integral part of management's responsibility.

Item 16 Management's Discussion and Analysis or Plan of Operations.

Refer to Forward-Looking Statements following Item 21 of this annual disclosure statement.

Overview

The Company reported revenues of $210.0 million in fiscal 2015 compared to revenues of $160.2 million in fiscal 2014, an increase of 31.1%. The increase in revenues was primarily due to the acquisition of 24 Wendy's restaurants in 2015, two new construction restaurants built in 2015, and a full year of sales from the 23 acquired and newly built restaurants in 2014. Additionally, total Company "same store sales" increased by 5.1% for all restaurants in the fiscal year ended January 3, 2016. The Company also reported net income of $7.0 million in fiscal 2015, compared to net income of $2.8 million in fiscal 2014, an increase of 154.8%, and was recently recognized as one of the top five Best 50 Companies on the OTCQX.

The Company continues to evaluate acquisition opportunities in the Wendy's and casual dining restaurant segments. Since 2009, the Company has acquired 109 Wendy's restaurants through 14 separate transactions.

Results of Operations

Meritage operates in the quick-service and casual dining restaurant industries. The Company has experienced significant growth through its acquisition efforts and the launch of its own independent concepts, Twisted Rooster, Crooked Goose and Freighters Eatery & Taproom. At January 3, 2016, the Company operated 161 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company and five casual dining restaurants. Of the Wendy's, 46 are located in Michigan, 49 in Florida, 38 in Georgia, two in North Carolina, one in South Carolina, 10 in Virginia, and 15 in Ohio. 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	24	-	24
Newly opened restaurants	2	-	2
Closed restaurants	-2	-	-2
Restaurants as of January 3, 2016	161	5	166

Results of operations are summarized below:

	(000's) 2015		(000's) 2014	
Food and Beverage Revenue	$209,996	100.0%	$160,213	100.0%
Costs and Expenses				
Cost of food and beverages	57,363	27.3%	46,787	29.2%
Labor and related expenses	60,803	29.0%	47,949	29.9%
Advertising expenses	8,730	4.2%	6,646	4.1%
Other operating expenses	54,378	25.9%	42,909	26.8%
Total Operating Costs	181,274	86.3%	144,291	90.1%
General & administrative expenses	11,670	5.6%	7,636	4.8%
Preopening and acquisition expenses	1,158	0.6%	861	0.5%
Closing and disposition expenses	702	0.3%	49	0.0%
Depreciation and amortization	4,517	2.2%	3,099	1.9%
Total Costs and Expenses	199,320	94.9%	155,937	97.3%
Income from Operations	10,675	5.1%	4,276	2.7%
Other (Income) Expense				
Interest expense	2,449	1.2%	1,891	1.2%
Other	(1,825)	-0.9%	(1,160)	-0.7%
Total Other Expense	624	0.3%	731	0.5%
Income Before Income Taxes	10,051	4.8%	3,545	2.2%
Income Tax Expense	3,025	1.4%	787	0.5%
Net Income	7,026	3.3%	2,758	1.7%

Food and Beverage Revenue

In fiscal 2015, revenues increased $49.8 million, or 31.1%, from $160.2 million in fiscal 2014, to $210.0 million.

The Company's Wendy's restaurants reported sales of $195.6 million in fiscal 2015, an increase of 33.9% over the prior year's sales. The most significant contributing factors to the increase were the net addition of 24 Wendy's restaurants in 2015, and the net addition of 23 Wendy's restaurants throughout 2014. The Company's Wendy's restaurants experienced a "same store sales" (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) increase of 3.4% over the prior year's sales.

The Company's casual dining restaurant sales were $14.4 million, an increase of 1.7% over prior year sales of $14.2 million, and a "same store sales" decrease of 0.1% from prior year.

Cost of Food and Beverages

The cost of food and beverages decreased as a percent of sales from 29.2% in fiscal 2014 to 27.3% in fiscal 2015. The decrease in cost of food and beverages as a percent of revenues was due to strategic price increases late in 2014. This decrease was offset by an increase in commodity costs of primary products, including an increase of 11.0% in the average cost of beef in 2015 compared to 2014.

Labor and Related Expenses

Labor and related expenses decreased from 29.9% of revenues in 2014 to 29.0% of revenues in 2015. The decrease of 0.9% is attributed to the dilutive impact of increased pricing and more efficient management of hourly labor, which was partially mitigated by an overall increase in minimum wage rates which directly impacted core labor costs.

Other Operating Expenses

Other operating expenses decreased as a percentage of revenues from 26.8% in 2014 to 25.9% in 2015. The decrease is partially related to increased sales in 2015, resulting in a dilutive impact of fixed costs as a percentage of sales. In addition, overall utilities expense was reduced during 2015 from improved weather conditions when compared to 2014.

General and Administrative Expenses

General and administrative expenses increased from 4.8% of revenues in 2014 to 5.6% of revenues in 2015. This increase is primarily related to incentive compensation expense for improved performance.

Preopening and Acquisition Expenses

Preopening and acquisition expenses include costs associated with the acquisition of 24 Wendy's restaurants in Florida and Ohio, the opening of newly built Wendy's restaurants in Florida and Georgia, and costs related to numerous reimaging remodels.

Closing and Disposition Expenses

Included in closing and disposition expenses are actual and estimated costs related to the closure of under-performing restaurants. We expect these to be an ongoing expense from continuing efforts to improve the overall portfolio of restaurants.

Depreciation and Amortization

The increase in depreciation and amortization expense was due to significant asset purchases in 2015 and 2014, primarily as a result of acquisitions, reimaging remodels, and new restaurant construction.

Interest Expense

Interest expense remained consistent as a percent of revenues when compared to the prior year.

Other Income

Other income was primarily related to gains on real estate transactions completed throughout the year.

Income Tax Expense

Income tax expense is summarized as follows:

	2015 (000's)		2014 (000's)	
Federal income tax expense		725		255
State and local income tax expense		528		168
Change in deferred tax asset		1,772		364
Income tax expense	$	3,025	$	787

The Company had net deferred tax assets totaling $2.3 million and $4.1 million at January 3, 2016 and December 28, 2014, respectively. The Company regularly assesses the ability to realize its deferred tax assets and the related need for, and amount of, a valuation allowance. Management considers many factors in determining the likelihood of future realization of deferred tax assets including recent cumulative earnings and loss experiences and future reversals of timing differences. The Company had no valuation allowance as of January 3, 2016 and December 28, 2014.

The Company's federal income tax expense was reduced by tax credits of $1,384,000 and $976,000 in 2015 and 2014, respectively.

Financial Condition

Management monitors short and long-term cash needs and believes at this time, that with its ongoing operations and current cash balances, it has sufficient capital to meet its ongoing obligations.

Loan covenants of the various loan agreements include requirements for the maintenance of certain financial ratios. At January 3, 2016 and December 28, 2014, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of January 3, 2016.

Part E Issuance History

Item 17 List of securities offerings and shares issued for services in the past two years.

Common Shares Issued: Fiscal Years 2014 and 2015:

Transaction	Date	Amount
Director Comp – 1st Quarter 2014	3/30/2014	2,662
Director Comp – 2nd Quarter 2014	6/29/2014	1,739
Director Comp – 3rd Quarter 2014	9/28/2014	1,735
Director Comp – 4th Quarter 2014	12/28/2014	1,735
Director Comp – 1st Quarter 2015	3/29/2015	1,609
Director Comp – 2nd Quarter 2015	6/28/2015	1,078
Director Comp – 3rd Quarter 2015	9/27/2015	1,033
Director Comp – 4th Quarter 2015	1/3/2016	817

Management Compensation Plans

2009 Directors' Compensation Plan ("2009 Plan"). The 2009 Plan was adopted by the Board of Directors in December 2008. Pursuant to the Plan, all non-employee directors receive a fee of $1,000 for attendance at meetings of the Board of Directors and $2,000 for attendance at meetings of the audit committee of the Board. Compensation is paid quarterly in arrears in the form of cash or Company common shares which are priced at the average fair market value during the five trading days prior to the end of the fiscal quarter. A director who is also an employee of Meritage is not separately compensated for serving as a director. This Plan will terminate pursuant to its terms on December 1, 2018.

2008 Directors' Share Equity Plan ("2008 Directors' Plan"). The 2008 Directors' Plan was adopted by the Board of Directors in March 2008. Under the terms of the 2008 Directors' Plan, non-employee directors are granted an option to purchase 10,000 common shares upon initial election to the Board, and another option to purchase 10,000 common shares upon each subsequent election. The 2008 Directors' Plan will terminate pursuant to its terms on May 21, 2018.

2002 Management Equity Incentive Plan ("2002 Incentive Plan") and 2008 Management Equity Incentive Plan ("2008 Incentive Plan"). The 2002 Incentive Plan authorized up to 1,000,000 common shares for use in the 2002 Incentive Plan. The 2008 Incentive Plan was adopted by the Board of Directors in March 2008 and authorized up to 750,000 common shares for use in the 2008 Incentive Plan. The purpose of these Plans is to (i) further the long-term growth of Meritage by offering competitive incentive compensation related to long-term performance goals to employees who are largely responsible for planning and directing such growth, (ii) reinforce the commonality of interest between Meritage's shareholders and its employees and (iii) aid in attracting and retaining employees of outstanding abilities and specialized skills. These Plans allow for the award of (i) incentive and non-qualified stock options, (ii) stock appreciation rights which may be issued in tandem with stock options or as freestanding rights, (iii) restricted and unrestricted stock, (iv) performance shares conditioned upon meeting performance criteria, and (v) other awards based in whole or in part by reference to, or otherwise based on, securities of Meritage. The 2002 Incentive Plan terminated pursuant to its terms on May 21, 2012. The 2008 Incentive Plan will terminate pursuant to its terms on May 21, 2018.

Part F Exhibits

Item 18 Material Contracts.

Material contracts are separately posted on the OTC Markets website for Meritage and can be accessed at www.otcmarkets.com/otcqx/home or can be found in previous Forms 10-K and other SEC EDGAR filings which can be accessed on the SEC website at www.sec.gov. In addition, the following material contracts are included with this Annual Report:

None.

Item 19 Articles of Incorporation and Bylaws.

The Articles of Incorporation and Bylaws of the Company are separately posted on the OTC Markets website and can be accessed at www.otcmarkets.com/otcqx/home.

Item 20 Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following table summarizes Meritage's purchases of its common shares, par value $0.01 per share, for the fiscal year ended January 3, 2016:

Company's Purchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Programs	Shares that May Yet Be Purchased Under the Program (1)
Month #1 12/29/14-01/25/15	0	---	---	298,645
Month #2 01/26/15-03/01/15	0	---	---	298,645
Month #3 03/02/15-03/29/15	0	---	---	298,645
Month #4 03/30/15-04/26/15	0	---	---	298,645
Month #5 04/27/15-05/31/15	0	---	---	298,645
Month #6 06/01/15-06/28/15	0	---	---	298,645
Month #7 06/29/15-07/26/15	0	---	---	298,645
Month #8 07/27/15-08/30/15	0	---	---	298,645
Month #9 08/31/15-09/27/15	0	---	---	298,645
Month #10 09/28/15-10/25/15	0	---	---	298,645
Month #11 10/26/15-11/29/15	0	---	---	298,645
Month #12 11/30/15-01/03/16	0	---	---	298,645

(1) The Board of Directors authorized the Company to repurchase from time to time, subject to capital availability, up to 550,000 shares of Meritage's common stock through open market transactions or otherwise. There is no expiration date relating to this program, but the Board is permitted to rescind the program at any time. Additionally, in February 2010, the Board authorized the repurchase, subject to capital availability, of up to 100,000 preferred shares (Series A Preferred Shares or Series B Preferred Shares) of Meritage.

Item 21 Issuer's Certifications.

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

1. I have reviewed this annual 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.

March 21, 2016

Robert E. Schermer, Jr.
Chief Executive Officer

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

1. I have reviewed this annual 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.

March 21, 2016

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; Meritage's ability to consummate acquisitions or, if consummated, to successfully integrate acquired businesses into Meritage's operations, Meritage's ability to recognize the benefits of acquisitions, including potential synergies and cost savings, failure of an acquisition or acquired company to achieve its plans and objectives generally, risk that proposed or consummated acquisitions may disrupt operations or pose difficulties in employee retention or otherwise affect financial or operating results, Meritage's ability to raise the capital that may be required to accomplish the foregoing, 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, Virginia, and Ohio, 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 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.

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Financial Report
January 3, 2016 and December 28, 2014

Contents

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634 Front Avenue N.W.
Grand Rapids, MI 49504
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plantemoran.com

Independent Auditor's Report

To the Board of Directors
Meritage Hospitality Group Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Meritage Hospitality Group Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of January 3, 2016 and December 28, 2014 and the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meritage Hospitality Group Inc. and Subsidiaries as of January 3, 2016 and December 28, 2014 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.

Plante & Moran, PLLC

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Balance Sheet

	January 3, 2016	December 28, 2014
Assets		
Current Assets		
Cash	$ 6,587,845	$ 5,200,901
Receivables	428,196	237,887
Inventories	1,401,707	1,267,596
Prepaid expenses and other current assets	2,515,490	1,357,816
Total Current Assets	10,933,238	8,064,200
Property and Equipment - Net	49,072,061	39,273,369
Goodwill	38,016,614	25,675,350
Intangible Assets	1,383,076	1,409,403
Deferred Income Taxes	2,332,186	4,104,152
Other Assets		
Notes receivable	548,215	548,215
Long-term investments	5,261,724	4,783,638
Deposits and other assets	1,975,441	1,671,381
Total Assets	**$ 109,522,555**	**$ 85,529,708**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 10,027,501	$ 6,351,440
Revolving line of credit	6,792,864	4,603,213
Current portion of long-term debt	6,586,265	6,378,332
Accrued liabilities	9,512,562	7,242,834
Total Current Liabilities	32,919,192	24,575,819
Unearned Vendor Allowances	565,906	1,002,908
Accrued Rent	2,664,792	2,435,059
Deferred Compensation	1,780,525	1,514,199
Long-term Debt - Net of current portion	41,224,622	32,338,004
Deferred Gain - Sale and leaseback transactions	9,834,161	10,632,067
Equity	20,533,357	13,031,652
Total Liabilities and Equity	**$ 109,522,555**	**$ 85,529,708**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Operations

	Fiscal Year Ended January 3, 2016	Fiscal Year Ended December 28, 2014
Food and Beverage Revenue	$ 209,995,561	$ 160,213,210
Costs and Expenses		
Cost of food and beverages	57,362,836	46,787,076
Labor and related expenses	60,802,769	47,948,892
Advertising expenses	8,729,519	6,646,356
Other operating expenses	54,378,585	42,909,093
Total Operating Expenses	181,273,709	144,291,417
General and administrative expenses	11,670,420	7,636,128
Preopening and acquisition expenses	1,157,724	860,778
Closing and disposition expenses	701,661	49,037
Depreciation and amortization	4,516,878	3,099,364
Total Costs and Expenses	199,320,392	155,936,724
Income from Operations	10,675,169	4,276,486
Other (Income) Expense		
Interest expense	2,449,169	1,891,212
Other income	(1,825,211)	(1,159,751)
Total Other Expense	623,958	731,461
Income Before Income Taxes	10,051,211	3,545,025
Income Tax Expense	3,024,917	787,371
Net Income	**$ 7,026,294**	**$ 2,757,654**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Equity

	Controlling Interest						
	Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings 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 stock dividends				(167,634)			(167,634)
Preferred stock 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					7,026,294		7,026,294
Issuance of 110,000 shares of preferred stock		1,100		1,098,900			1,100,000
Issuance of 43,720 shares of common stock			437	51,522			51,959
Common stock dividends				(337,781)			(337,781)
Preferred stock dividends				(657,564)			(657,564)
Stock option expense				318,797			318,797
Balance - January 3, 2016	$ 295	$ 8,560	$ 56,512	$ 17,845,000	$ 2,622,990	$ -	$ 20,533,357

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	Fiscal Year Ended	
	January 3, 2016	December 28, 2014
Cash Flows from Operating Activities		
Net Income	$ 7,026,294	$ 2,757,654
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	4,516,878	3,099,364
Deferred income taxes	1,771,966	364,115
Amortization of deferred gain from sale and leaseback transactions	(1,876,509)	(892,092)
Change in fair market value of swap	-	45,161
Compensation paid by issuance of common stock	36,042	40,998
Loss on disposal of intangible assets	-	185,525
Loss on disposal of fixed assets	102,568	33,200
Gain on debt restructure	(225,777)	-
Stock option expense	318,797	198,541
Changes in operating assets and liabilities which (used) provided cash:		
Receivables	(190,309)	307,515
Inventories	29,771	(99,862)
Prepaid expenses and other current assets	(1,157,673)	(36,324)
Deposits and other assets	(314,578)	(256,490)
Accounts payable	3,676,061	1,626,903
Accrued liabilities	2,077,283	(147,513)
Other long-term liabilities	266,326	192,835
Accrued rent	229,733	522,978
Unearned vendor allowances	(689,413)	73,670
Net cash provided by operating activities	15,597,460	8,016,178
Cash Flows from Investing Activities		
Purchase of property and equipment	(22,709,099)	(11,358,446)
Purchase of intangible assets	(67,499)	(117,705)
Change in long term investments	(478,086)	(348,556)
Acquisitions, net	(15,724,911)	(6,909,059)
Net cash used in investing activities	(38,979,595)	(18,733,766)

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows (Continued)

	Fiscal Year Ended January 3, 2016	Fiscal Year Ended December 28, 2014
Cash Flows from Financing Activities		
Repayments from note receivable	500,000	-
Proceeds from long-term debt	17,800,443	16,918,218
Proceeds from sale leaseback transactions	12,755,498	7,538,279
Proceeds from revolving line of credit - net	9,585,124	3,910,159
Principal payments on long-term debt	(5,659,458)	(10,467,858)
Principal payments on capital lease	(204,924)	(209,166)
Payments on debt related to sale leaseback transactions	(10,011,207)	(4,270,000)
Payments on financing costs	(116,969)	(246,506)
Proceeds from sale of common stock	15,917	57,100
Proceeds from issuance of preferred stock	1,100,000	-
Common stock dividends paid	(337,781)	(167,634)
Preferred stock dividends paid	(657,564)	(623,368)
Net cash provided by financing activities	24,769,079	12,439,224
Net Increase in Cash	1,386,944	1,721,636
Cash - Beginning of year	5,200,901	3,479,265
Cash - End of year	$ 6,587,845	$ 5,200,901
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 2,398,263	$ 1,911,246
Income taxes	$ 895,434	$ 830,633
Significant non-cash investing and financing transactions:		
Seller financed notes payable related to Wendy's acquisitions	$ -	$ 1,100,000
Deferred gain on sale leaseback transactions	$ 1,078,603	$ 1,016,939
Acquisition of equipment through capital lease	$ -	$ 858,607
Conversion of note receivable to an investment	$ -	$ 97,905

See notes to consolidated financial statements

Note 1 - Nature of Business and Significant Accounting Policies

Meritage Hospitality Group Inc. and Subsidiaries (the "Company") conducts its business in the quick-service and casual dining restaurant industries. At January 3, 2016, the Company operated 161 Wendy's Old Fashioned Hamburgers quick-service restaurants under franchise agreements with The Wendy's Company, three Twisted Rooster, one Crooked Goose, and one Freighters full-service casual dining restaurants. Operations of the Company are located in Michigan, Florida, Georgia, North Carolina, South Carolina, Virginia, and Ohio.

Principles of 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.

Fiscal Period – The Company operates on a 52/53 week fiscal year ending on the Sunday closest to December 31st of each year. Fiscal year 2015 ended January 3, 2016 contained 53 weeks. Fiscal year 2014 ended December 28, 2014 contained 52 weeks.

Revenue Recognition - Revenues consist of restaurant food and beverage sales and are net of applicable sales taxes. Food and beverage revenue is recognized upon delivery.

Receivables - Receivables consist of trade receivables and other receivables. Trade receivables consist of gift cards sold by the Company, its franchisers, and other franchisees that have been redeemed at the Company's restaurants, and amounts due from unsettled debit and credit card sales. No allowance for doubtful accounts is deemed necessary.

Inventories - Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) method, and consist of restaurant food items, beverages, and paper supplies.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed principally using the straight-line method based upon estimated useful lives ranging from 3 to 15 years for furniture and equipment and up to 30 years for buildings. Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the various leases, including renewal periods when there is a compulsion to renew as the result of a penalty. Repairs and maintenance costs that do not add to the value or increase the life of an asset are expensed when incurred. Interest costs on borrowings are capitalized during the construction period of new restaurants. Interest of $85,000 and $40,000 was capitalized in 2015 and 2014, respectively.

Goodwill - The Company tests goodwill for impairment annually in the fourth quarter of each fiscal year. The Company determines its reporting units for goodwill based on its operating business segments. For the years ended January 3, 2016 and December

28, 2014 the tests indicated no goodwill impairment. The fair value was calculated using the discounted cash flow approach.

Franchise Agreement Costs - Franchise agreement costs, capitalized in connection with the Company's Wendy's restaurants, are amortized using the straight-line method over the terms of each individual franchise agreement, including options, given the Company's historical pattern and economic compulsion to renew (see Note 5 for capitalized franchise agreement costs).

Financing Costs - Financing costs are capitalized and amortized using the straight-line method, which approximates the effective interest rate method, over the terms of the various loan agreements (see Note 5 for capitalized financing costs).

Liquor Licenses - Costs incurred to obtain liquor licenses are capitalized and amortized using the straight-line method over 20 years. Annual costs to renew existing liquor licenses are expensed as incurred.

Long Term Investments – Investments in entities in which the Company has less than a 20 percent interest or is not able to exercise significant influence are carried at cost. Impairment losses due to a decline in the value of the investment that is other than temporary are recognized when incurred. Investments are reviewed only when impairment indicators are present by comparing carrying value to fair market value, as determined by appraisals, present value of estimated future cash flows or similar third-party transactions. If the carrying value exceeds fair market value, an impairment is recognized for the amount by which the carrying amount of the asset exceeds the fair market value. There were no impairments for the years ended January 3, 2016 and December 28, 2014.

Self-insurance – The Company's Wendy's restaurants in Michigan are self-insured for workers' compensation claims up to a $500,000 per claim stop-loss level and maximum aggregate claims of $5,000,000 on an annual basis. The Company determines its liability based on estimated loss reserves provided by the Company's third-party administrator and on management's knowledge of open claims.

Unearned Vendor Allowances - Up-front consideration received from vendors linked to future purchases is initially deferred, and then recognized as earned income as the purchases occur over the term of the vendor arrangement in accordance with guidance on accounting by a customer for certain consideration received from a vendor. During the years ended January 3, 2016 and December 28, 2014, the Company received $2,261,000 and $2,555,000, respectively, in marketing and conversion funds that, in accordance with guidance, are being recognized as a reduction of cost of food and beverages as products are purchased.

Interest Rate Swaps – The Company held derivative financial instruments for the purpose of hedging risks relating to the variability of cash flows caused by interest rate fluctuations. The interest rate swaps were recognized in the accompanying consolidated balance sheets at fair value and had not been designated as a cash flow hedge for financial reporting purposes. During 2014, all swap agreements were terminated during a refinancing.

Stock-based Compensation - The Company measures the cost of employee services received in exchange for equity awards, including stock options, based on the grant date fair value of the awards. The cost for all new grants is recognized as compensation expense over the expected life of the awards. The Company issues new shares when stock options are exercised.

Advertising Costs and Other Franchise Fees - Advertising costs and fees due under the Company's franchise agreements are based primarily on a percentage of monthly food and beverage revenue. These costs are charged to operations as incurred. Advertising expense was approximately $8,730,000 and $6,646,000 for the years ended January 3, 2016 and December 28, 2014, respectively.

Income Taxes - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

Deferred Gain – In the current year and previous years, the Company completed multiple sale and leaseback transactions. The gains recognized from these transactions are being amortized over the respective lease terms and recorded as a reduction of base rent expense.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances; however, actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the assessment of impairment of long-lived assets, goodwill, and deferred tax assets.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including March 21, 2016, which is the date the financial statements were issued.

Subsequent to year end the Company entered into a definitive asset purchase agreement to acquire a portfolio of 19 casual and polished-casual dining restaurants located in the Midwest and Mid-Atlantic states. The transaction is subject to customary due diligence including debt and equity financing arrangements.

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease footnote guidance will be effective for the Company's 2019 fiscal year and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Company's financial statements as a result of the leases for various locations classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined.

Note 2 - Equity

The Company has 5,000,000 authorized shares of $0.01 par value preferred stock. A total of 200,000 shares are designated as Series A convertible cumulative preferred stock, with 29,520 shares issued and outstanding as of January 3, 2016 and December 28, 2014. A total of 1,350,000 shares are designated as Series B convertible cumulative preferred stock, with 856,000 shares issued and outstanding as of January 3, 2016, and 746,000 shares issued and outstanding as of December 28, 2014.

The Series A nonvoting convertible preferred stock has an annual dividend rate of $0.90 per share which is cumulative. The shares are convertible by the stockholders into common shares at the conversion price of $7.00 per share and have a liquidation value of $10.00 per share. The Company has the option to convert the preferred stock into common stock under certain conditions relating to the market value of the Company's common stock.

The Series B nonvoting convertible preferred stock has an annual dividend rate of $0.80 per share which is cumulative. The preferred shares are convertible into common shares at the conversion price of $5.57 per share based on a liquidation value of $10.00 per share. The Company may (but is not required to) redeem the preferred shares at a price of $10.00 per share plus accrued but unpaid dividends. The Series B Preferred shares of the Company are quoted on the OTC Markets under the symbol "MHGUP".

The Company has 30,000,000 authorized shares of $0.01 par value common stock, with 5,651,242 and 5,607,523 shares issued and outstanding as of January 3, 2016 and December 28, 2014, respectively. The common shares of the Company are quoted on the OTC Markets under the symbol "MHGU".

Note 3 - Property and Equipment

Property and equipment are summarized as follows:

	2015	2014
Land and improvements	$ 13,669,205	$ 13,342,293
Buildings and improvements	16,208,633	15,238,233
Furnishings and equipment	33,284,588	27,156,869
Leasehold improvements	5,144,837	4,084,760
Leased property under capital leases	1,135,700	1,135,700
Construction in progress	5,985,576	2,532,717
Total cost	75,428,539	63,490,572
Accumulated depreciation	26,356,478	24,217,203
Net property and equipment	$ 49,072,061	$ 39,273,369

Depreciation expense was approximately $4,296,000 and $2,911,000 in fiscal 2015 and fiscal 2014, respectively.

Note 4 - Goodwill

Changes to goodwill for the fiscal years ended 2015 and 2014 are as follows:

Balance - December 29, 2013	$ 20,566,974
Acquisitions	5,108,376
Balance - December 28, 2014	25,675,350
Acquisitions	12,341,264
Balance - January 3, 2016	$ 38,016,614

Note 5 - Intangible Assets

Intangible assets consist of capitalized franchise and financing costs, less accumulated amortization.

	2015	2014
Franchise costs	$ 1,567,567	$ 1,500,067
Financing costs	937,686	820,716
Total	2,505,253	2,320,783
Accumulated amortization	1,122,177	911,380
Net	$ 1,383,076	$ 1,409,403

Amortization expense for franchise costs in 2015 and 2014 was approximately $51,800 and $48,900, respectively, and amortization expense for financing costs was approximately $159,000 and $128,800 in 2015 and 2014, respectively. The weighted average useful life is 19.1 years for franchise costs and 2.6 years for financing costs.

Amortization expense for the next five fiscal years is projected as follows:

2016	$ 179,111
2017	176,908
2018	127,715
2019	115,730
2020	102,346
Thereafter	681,266
Total	$ 1,383,076

Note 6 - Notes Receivable

Notes receivable consist of the following:

	2015	2014
Non-interest bearing note, collateralized by the associated real estate, due January 2017	$ 300,000	$ 300,000
Promissory note receivable, bearing interest of 7.20 percent, maturing August 2032	248,215	248,215
Total Notes Receivable	$ 548,215	$ 548,215

In July 2012, the company loaned $748,215 to the developer of a hotel and convention center. The developer committed to provide one million dollars of equipment for the Company to open a new on-site restaurant. The Company has an option to purchase the equipment in seven years for $748,215 (the value of the loan). The estimated fair market value of the equipment was determined to be $248,215. The Company intends to exercise its option. Accordingly, when the restaurant opened, the Company reclassified the remaining value to prepaid expense and began to amortize the $500,000 over seven years in conjunction with the related operating lease agreement.

Note 7 - Long-term Investments

Long-term investments consist of the following:

	2015	2014
Investment in TRG	$ 2,564,097	$ 2,086,011
Priority interest in TRG	2,422,627	2,422,627
Other investment	275,000	275,000
Total Long-term Investments	$ 5,261,724	$ 4,783,638

Investment in TRG - RDG holds a 15.0 percent investment in TRG, which owns approximately 760 acres of ocean-front real estate in the Bahamas, for future development.

Priority Interest in TRG – The priority interest in TRG has a priority preferred return of 16.0 percent, compounded quarterly.

Note 8 - Accrued Liabilities

The following is a detail of accrued liabilities:

	2015	2014
Payroll and related payroll taxes	$ 6,739,670	$ 4,332,767
Property taxes	365,517	930,372
Other	2,407,375	1,979,695
Total	$ 9,512,562	$ 7,242,834

Note 9 - Long-term Debt and Revolving Line of Credit

Long-term debt consists of the following:

	2015	2014
Mortgage notes payable - fixed rate, due in monthly installments totaling $44,663 including fixed interest rates ranging from 5.40 percent to 8.00 percent, maturing from December 2017 through September 2023	$ 1,764,340	$ 2,177,011
Mortgage notes payable - variable rate, due in monthly installments totaling $67,028 including interest of Libor plus 4.25 percent (effective rate of 4.67 and 4.42 percent at January 3, 2016 and December 28, 2014, respectively), maturing from August 2021 through December 2022	8,101,266	7,970,394
Acquisition notes payable, unsecured - fixed rates, due in monthly installments totaling $234,622 including interest ranging from 4.95 percent to 8.00 percent, maturing from October 2017 through January 2020	11,903,037	12,152,943
Acquisition notes payable, unsecured - variable rates, due in monthly installments totaling $128,155 including interest ranging from 4.67 percent to 8.00 percent, maturing from December 2017 to July 2022	12,368,764	3,668,703
Acquisition notes payable, unsecured - interest only, monthly payments totaling $3,450 with an interest rate of 6.00 percent, maturing in March 2016	690,000	940,000
Equipment notes payable, with fixed interest rates, due in monthly installments totaling $121,310 including interest ranging from 4.97 percent to 6.12 percent, maturing from March 2018 through December 2020	5,586,545	5,107,260
Equipment notes payable, with variable interest rates, due in monthly installments totaling $67,415 including interest ranging from 4.75 percent to 4.79 percent, maturing from August 2021 through October 2022	5,904,671	4,847,020
Equipment note payable, with interest-only monthly payments of $12,093 including interest at 7.5 percent, maturing September 2019	463,150	577,021
Other note payable, with fixed interest rate, due in monthly payments of $6,661 at interest ranging from 6.00 percent to 7.00 percent, maturing in May 2022	584,597	626,542
Other note payable, with fixed interest, due in monthly payments of $21,004 including interest of 8.305 percent, maturing December 2017	444,517	649,442
Total	47,810,887	38,716,336
Less current portion	6,586,265	6,378,332
Long-term portion	$ 41,224,622	$ 32,338,004

The total of the above debt matures as follows:

2016	$ 6,586,265
2017	6,217,559
2018	14,354,061
2019	4,293,333
2020	3,061,260
Thereafter	13,298,409
Total	$ 47,810,887

The Company has a revolving line of credit agreement with a bank as of January 3, 2016 and December 28, 2014. The revolver allows for borrowings up to $10.0 million, which was increased during 2015 from the previous borrowing limit of $5.1 million at December 28, 2014. The revolver had effective interest rates of 4.67 percent and 4.44 percent at January 3, 2016 and December 28, 2014, respectively, and expires November 2016.

Substantially all property and equipment owned by the Company is pledged as collateral for the Company's long-term debt and revolving line of credit.

Loan covenants of the various loan agreements include requirements for the maintenance of certain financial ratios. At January 3, 2016 and December 28, 2014, the Company was in compliance with these covenants.

Note 10 - Income Taxes

Deferred income tax assets and liabilities:

Deferred income tax assets:	2015	2014
Accrued rents	$ 1,065,918	$ 974,025
Deferred gains on sale leaseback transactions	4,187,176	4,374,722
General business credit	1,320,020	1,482,222
Other	2,234,864	1,937,548
Total deferred tax assets	8,807,978	8,768,517
Deferred income tax liabilities:	**2015**	**2014**
Depreciation, amortization, and basis differences	(3,988,598)	(2,631,589)
Other	(2,487,194)	(2,032,776)
Total deferred tax liabilities	(6,475,792)	(4,664,365)
Net deferred income tax assets	$ 2,332,186	$ 4,104,152

The Company regularly assesses the realizability of its deferred tax assets and the related need for, and amount of, a valuation allowance. Management considers many factors in determining the likelihood of future realization of the deferred tax asset including recent cumulative earnings and loss experiences, future reversals of existing temporary differences, and carryforwards.

The general business credits listed above, expire ranging from 2031 to 2036.

The income tax provision reconciled to the tax computed at the statutory state and federal rates for the years ended January 3, 2016 and December 28, 2014 was as follows:

	2015	2014
Tax expense at statutory rates applied to income before income taxes	$ 4,020,484	$ 1,418,010
Permanent differences	547,442	360,807
Impact of tax credits	(1,383,635)	(976,036)
Other - net	(159,374)	(15,410)
Income tax expense	$ 3,024,917	$ 787,371

The provision for income taxes consists of the following:

	2015	2014
Current expense	1,252,951	423,256
Deferred expense	1,771,966	364,115
Total income tax expense	$ 3,024,917	$ 787,371

As of January 3, 2016 and December 28, 2014, the Company's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized or accrued during 2015 and 2014.

Note 11 - Lease Commitments

The Company leases land and buildings used in operations under operating agreements, with remaining lease terms (including options to renew) ranging from 1 to 50 years. At January 3, 2016, the Company had several leases that contained rent escalators. Certain of these rent escalators are contingent upon changes in the Consumer Price Index and have limits over which lease payments may increase. For the remaining rent escalators that have specific periodic increases, rent expense is recognized in accordance with accounting guidance related to accounting for operating leases with scheduled rent increases, using the straight-line method over the term of the leases. The Company includes renewal options in determining straight-line rent only when an economic compulsion to renew exists, such as when the Company owns a building subject to a ground lease.

Base rent expense includes taxes, insurance, and maintenance when required under the lease agreements. Percentage rentals represent additional rent due under certain leases for which the Company is required to pay a percent of sales in excess of minimum prescribed amounts. Total operating lease expenses for the years ended January 3, 2016 and December 28, 2014 were as follows:

	2015	2014
Base rent expense	$15,196,522	$ 11,878,078
Deferred gain amortization	(870,786)	(892,092)
Percentage rentals	210,882	81,050
Straight-line rent expense	291,030	277,506
Total	$14,827,648	$ 11,344,542

Minimum future rentals on noncancelable leases as of January 3, 2016 for each of the next five fiscal years and in the aggregate are as follows:

2016	$ 15,595,499
2017	15,564,935
2018	15,392,742
2019	15,199,028
2020	14,808,170
Thereafter	112,831,206
Total	$ 189,391,580

Note 12 - Employee Benefit Plans

The Company has a deferred compensation plan (the "Plan") for certain employees. The plan provides for the payment of benefits for an elected period of up to ten years. Deferred compensation expense was $877,743 in 2015 and $343,856 in 2014. Other long-term obligations related to deferred compensation under the Plan include $1,780,525 and $1,444,201 as of January 3, 2016 and December 28, 2014, respectively. The participants vest in accordance with a predetermined vesting schedule. The Company has partially funded the Plan obligation with Company-owned life insurance policies which have a cash surrender value of $1,195,803 and investments of $504,979 at January 3, 2016 and a cash surrender value of $898,027 and investments of $484,203 at December 28, 2014, which are included in other assets.

Note 13 - Stock Option Plans

The Company has management and director share-based compensation plans which are described below. The compensation cost charged against income for the plans was $318,797 and $198,541 in fiscal 2015 and fiscal 2014, respectively. The total income tax benefit recognized in the consolidated statement of operations for share-based compensation arrangements was $59,000 for fiscal 2015, and $37,000 for fiscal 2014.

The employee equity incentive plans provide for the discretionary grant of options. The current plan authorizes 750,000 shares of common stock to be granted for options that may be issued under the plan. The board of directors has the discretion to designate an option to be an incentive share option or a non-qualified share option.

The plans provide that the option price is not less than the fair market value of the common stock at the date of grant. Options granted under the plans become exercisable pursuant to a vesting schedule adopted by the board which administers the plans and the options may have a term of 10 years and fully vest three years from the grant date.

The directors' share option plans provide for the nondiscretionary grant of options to non-employee directors of the Company. The current plan allows for the grant of options for a maximum of 600,000 shares at option prices equal to the last closing sales price of the common stock on the date of grant. The plan provides that each non-employee director will be granted options to purchase 10,000 shares on the date such person becomes a non-employee director and on the date of each annual stockholders' meeting thereafter. Additional options may be granted by the board of directors, from time to time, on such terms and conditions as it determines appropriate. Options granted under the plan have a term of 10 years and fully vest three years from the date of grant.

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model that uses the following weighted average assumptions: dividend yield of 0 percent; risk-free interest rates of 1.52 percent to 1.65 percent in 2015 and 1.46 percent to 1.53 percent in 2014; expected life of approximately 4.85 years to 6.00 years in 2015 and 2014; and expected volatility of 48.28 percent to 56.82 percent in 2015 and 32.26 percent to 64.28 percent in 2014. Expected volatilities are based on historical volatility of The Wendy’s Company weekly stock price. The Company uses historical data to estimate option exercise and employee termination when determining the expected life within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of option activity under the employee plans for the years ended January 3, 2016 and December 28, 2014 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at December 29, 2013	992,000	$ 2.60	-
Granted	112,000	5.24	-
Exercised	(52,500)	1.09	
Forfeited or expired	(152,500)	4.55	-
Outstanding at December 28, 2014	899,000	2.68	5.4
Outstanding at December 28, 2014	899,000	$ 2.68	-
Granted	129,000	5.22	-
Exercised	(52,000)	4.74	
Forfeited or expired	-	-	-
Outstanding at January 3, 2016	976,000	2.91	5.2

The breakdown of outstanding options as of January 3, 2016 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	794,500	$ 2.45	4.5
Nonvested options	181,500	4.90	8.4

There were 52,000 and 52,500 options exercised in 2015 and 2014, respectively. Cash used to settle equity instruments granted under share-based payment arrangements was $0 during the 2015 and 2014 fiscal years. As of January 3, 2016, total unrecognized compensation expense related to non-vested options was $361,407. This expense will be recognized over approximately 2.9 years.

A summary of option activity under the directors' plans for the years ended January 3, 2016 and December 28, 2014 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at December 29, 2013	485,000	$ 2.99	-
Granted	50,000	5.24	-
Forfeited or expired	(100,000)	4.88	-
Outstanding at December 28, 2014	435,000	2.81	5.6
Outstanding at December 28, 2014	435,000	$ 2.81	-
Granted	50,000	7.07	-
Exercised	(30,000)	3.89	
Forfeited or expired	(10,000)	4.96	-
Outstanding at January 3, 2016	445,000	3.17	5.6

The breakdown of outstanding options as of January 3, 2016 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	370,000	$ 2.63	4.9
Nonvested options	75,000	5.81	8.8

There were 30,000 and 0 options exercised in 2015 and 2014, respectively. Cash used to settle equity instruments granted under share-based payment arrangements was $0 during the years ended 2015 and 2014. As of January 3, 2016, total unrecognized compensation expense related to non-vested options was $197,617. This expense will be recognized over approximately 2.4 years.

Note 14 - Related Party Transactions

The Company's CEO has provided personal guarantees to The Wendy’s Company to facilitate the granting of Wendy's franchise agreements.

The Company’s CEO is a co-managing member of a real estate development project in which the Company has an 11.2 percent interest. In addition, the Company leases space for a casual dining restaurant from an entity for which the CEO is the sole managing member.

In November 2012, the Company entered into a $200,000 mortgage note with one of its independent directors. The note bears interest of 8.0 percent and matures in December 2017. There was $154,432 outstanding as of January 3, 2016.

Note 15 - Guarantees, Commitments, and Contingencies

The Company is party to several agreements executed in the ordinary course of business that provide for indemnification of third parties under specified circumstances. Generally, these agreements obligate the Company to indemnify the third parties only if certain events occur or claims are made, as these contingent events or claims are defined in each of these agreements. The Company is not currently aware of circumstances that would require it to perform its indemnification obligations under any of these agreements and, therefore, has not recorded a liability.

The Company is involved in certain routine legal proceedings which 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 actions 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 which would cover most actions brought against the Company.

As part of the Company's ongoing franchise relationship with the Wendy's Company, the Company is required to complete certain agreed upon improvements to facilities amounting to approximately $866,000. Additionally, the Company is required to reimage 22 of the Wendy's restaurants acquired during 2015 and 2014, and expects to incur approximately $7,750,000 in related capital improvements by December 31, 2021.

Note 16 – Fair Value of Financial Instruments

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provides a framework for establishing that fair value. The Company measured interest rate swaps at fair value on a recurring basis. The fair value of these swaps was based primarily on inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Investments under the Company's deferred compensation plan are measured and carried at fair value based on the quoted prices in active markets for identical assets, and other observable and unobservable inputs reflecting assumptions that market participants would use in pricing. The Company also has other financial instruments which are not required to be measured at fair value on the consolidated balance sheet. Those instruments consist of the following:

Short-term Financial Instruments – The fair values of short-term financial instruments, including accounts receivable, accounts payable, accrued liabilities, and revolving lines of credit, approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments.
Long-term Obligations – The fair value of long-term debt obligations approximates carrying value at January 3, 2016 and December 28, 2014 based on estimated rates currently available to the Company at year end and debt obligations with similar terms and maturities.

Note 17 – Acquisition of Wendy's Restaurants

The Company acquired 24 Wendy's restaurants in 2015 and 19 Wendy's restaurants in 2014 through various transactions. The restaurants acquired in 2015 included the business and equipment, and two of the restaurants also included buildings. The restaurants acquired in 2014 included the business and equipment, and one of the restaurants acquired included the business, equipment, land and building of that location. The Company plans to leverage its core business experience to improve the operations and profitability of these restaurants, thereby enhancing its current Wendy's restaurant portfolio. The Company entered into new franchise agreements for all locations with its franchisor, The Wendy's Company.

The 2015 acquisitions were financed with $13,360,000 of new debt and $2,462,000 of cash, of which $1,100,000 was raised through the issuance of preferred stock. The transactions resulted in the recording of approximately $12,341,000 of goodwill, $3,165,000 of equipment and buildings, a $500,000 note receivable, $164,000 of inventory, $97,000 of other assets and $445,000 of liabilities.

The 2014 acquisitions were financed with approximately $6,887,000 of new debt, $1,100,000 of seller financing, $452,000 of cash, and $446,000 of net buyer credits. The transactions resulted in the recording of approximately $5,108,000 of goodwill, $4,165,000 of property, equipment and building, $90,000 of inventory, and $1,370,000 of liabilities of which $520,000 was received from the seller and is included in net buyer credits.

The Company expensed $267,000 and $345,000 of acquisition and preopening costs in 2015 and 2014 respectively, related to the transactions.

The goodwill of approximately $12,341,000 in fiscal 2015 and $5,108,000 in fiscal 2014 arising from the acquisitions consists largely of synergies and economies of scale expected from combining the operations of the new locations with the Company. All of the goodwill is expected to be deductible for tax purposes.