

FIDEICOMISO IRREVOCABLE F/1616 (DEUTSCHE BANK MEXICO, S.A. MULTIPLE BANKING INSTITUTION, TRUST DIVISION) AND SUBSIDIARY

Notes to the Unaudited Condensed Consolidated Financial Statements

As of June 30, 2019 and for the six-month period ended in such date

(In Thousands of Mexican pesos)

(1) COMPANY'S ACTIVITY-

Trust F/1616 (Deutsche Bank Mexico, S.A. Multiple Banking Institution, Trust Division) and Subsidiaries ("Fibra Inn" or the "Trust F/1616") was established on October 23, 2012, as a real estate trust by Asesor de Activos Prisma, Sociedad Anónima, Promotora de Inversión de Capital Variable (the "Trustor"), and Deutsche Bank Mexico, Sociedad Anónima, Institución de Banca Múltiple, División Fiduciaria (the "Trustee"). The Trust F/1616 started operations on March 12, 2013. It was created mainly to acquire and own real estate, with a view to leasing commercial properties earmarked for the hospitality industry and providing related services.

Fibra Inn, as a real estate investment trust (Fideicomiso de Inversiones en Bienes Raíces – "FIBRA"), meets the requirements to be treated as a transparent entity in Mexico in accordance with the Mexican Income Tax Law. Therefore, all proceeds from the Trust's operations are attributed to holders of its Real Estate Fiduciary Stock Certificates (Certificados Bursátiles Fiduciarios Inmobiliarios – "CBFIs") and the Trust F/1616 is not subject to income taxes in Mexico. In order to maintain its FIBRA status, the Tax Administration Service (Servicio de Administración Tributaria - SAT) established, in Articles 187 and 188 of the Income Tax Law, that the Trust F/1616 must annually distribute at least 95 percent of its net tax result to CBFIs holders.

Administradora de Activos Fibra Inn, S.C. (AAFI) is a subsidiary of Fibra Inn, in which it holds a 99.9% ownership interest and has control, as defined in Note 2c) below. This entity provides management services and support functions necessary to conduct the businesses of the Trust F/1616.

As of December 31, 2018, Trusts numbers CIB/3096 (CIBANCO, Sociedad Anónima, Institución de Banca múltiple) and CIB/3097 (CIBANCO, Sociedad Anónima Institución de Banca Múltiple) are investments in which Fibra Inn held 100% of the equity. In addition, Trust number CIB/3058 (CIBANCO, Sociedad Anónima, Institución de Banca Múltiple) is a joint venture in which Fibra Inn held 26% equity. However, during 2019, as a result of the different non-controlling interest contributions made to such investments, as of June 30, 2019 Fibra Inn holds 50% of the equity of Trusts CIB/3096 and CIB/3097, and 29% of the equity of Trust CIB/3058.

These trusts were established under the Hotel Factory scheme as a vehicle to carry out development activities and acquisition of new hotels and, based on the analysis of Management, it was concluded that Fibra Inn exerts control over them, as defined in Note 2c).

Trust F/1616's legal address is Ricardo Margain Zozaya No. #605, Colonia Santa Engracia, in San Pedro Garza García, Nuevo León.

(2) BASIS OF PREPARATION AND PRESENTATION-

a. *Statement of compliance*

The unaudited condensed consolidated financial statements of Fibra Inn have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Information as issued by the International Accounting Standards Board ("IASB").

b. *Basis of measurement*

Trust F/1616's unaudited condensed consolidated financial statements have been prepared on the basis of historical cost, except for the following items of the condensed consolidated statement of financial position, which were measured at fair value:

- a) allowance for doubtful accounts;
- b) derivative financial instruments;
- c) property, furniture and equipment;
- d) the net defined benefits liability is recognized as the present value of the defined benefit obligation.

The historical cost is generally based on the fair value of the consideration granted in exchange of the assets.

The aforementioned condensed consolidated financial statements as of June 30, 2019 and for the six-month period ended June 30, 2019 have not been audited. Based on the opinion of management of Fibra Inn, all necessary adjustments have been included in order to achieve a fair view presentation of the accompanying unaudited condensed consolidated financial statements. The results of the interim periods are not necessarily indicative of the projected year results.

IFRS 15, Revenue from Contracts with Customers.

IFRS 15 sets forth a full conceptual frame to determine whether revenues from ordinary activities should be recognized, when they should be recognized, and in what amount. IFRS 15 superseded IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. Under IFRS 15, revenues are recognized when the customer obtains control of the goods or services. The determination of the right moment in which control is transferred requires judgment. Fibra Inn has adopted IFRS 15 with no material effects, using the modified retrospective method as permitted by the corresponding temporary provisions, which would mean that any effect on the transition will be directly recognized in retained earnings, without reissuing prior years' financial statements.

IFRS 9, Financial Instruments.

IFRS 9, *Financial Instruments*, sets forth the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to purchase or sell non-financial items. This standard supersedes IAS 39, *Financial Instruments: Recognition and Measurement*.

The policy of Fibra Inn is to include the impairment of accounts receivable as part of the costs and expenses for hotel services. Impairment of other financial assets are presented as part of the financial costs within comprehensive financing income.

In addition, Fibra Inn has adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures*, which are applied to 2018 disclosures.

i. Classification and measurement of financial assets and liabilities

IFRS 9 includes three main classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income, and at fair value through the condensed consolidated statement of profit or loss. The classification of financial assets under IFRS 9 is usually based on the business model in which a financial asset is managed, and on contractual cash flow characteristics. IFRS 9 eliminates the previous categories of IAS 39 such as held-to-maturity, loans and accounts receivable, and available for sale. Under IFRS 9, embedded derivatives in agreements where principal is a financial asset within the scope of the standard, are never separated. On the other hand, the classification of the

hybrid financial instrument, taken as a whole, is assessed. IFRS 9 largely preserves the requirements existing in IAS 39 for the classification and measurement of financial liabilities.

Fibra Inn assessed its financial assets and financial liabilities at the transition date, where it determined that the business model for financial assets is to maintain assets to recover contractual cash flows, and they are measured at amortized cost, except hedging instruments, which are measured at fair value through other comprehensive income. Liabilities designated at fair value were not identified; therefore, they continue to be measured at amortized cost. In addition, exceptions and exemptions related to the retrospective application of IFRS 9 were analyzed, without material effects.

ii. Impairment of financial assets

IFRS 9 replaces the "incurred loss" model of IAS 39 by the "expected credit loss" (PCE for its initials in Spanish) model. The new impairment model applies to financial assets measured at amortized cost, the assets of the agreement, and debt investments measured at fair value through other comprehensive income, rather than to investments in equity instruments. Under IFRS 9, credit losses are recognized before that under IAS 39.

To clients and other receivables within the scope of the impairment model of IFRS 9, impairment losses are generally expected to increase and become more volatile, since the historical collection trend shows that those operations with more than 180 days of maturity have a degree of uncertainty for their recovery and, therefore, an estimated recovery rate becomes more acidic.

iii. Hedge accounting

Fibra Inn has chosen to adopt the new IFRS 9 hedge accounting model. This model requires Fibra Inn to ensure that the hedge accounting relationships are aligned with the objectives and strategies of risk management, and to apply a more qualitative and future-oriented approach to assess the effectiveness of the hedge.

Fibra Inn maintains interest rate hedging to cover its cash flows arising from the variability in the TIIE related to fiduciary stock certificates contracted at a variable rate. Fibra Inn designates only the change in the value of the reference interest rate of the debt fiduciary stock certificates at a variable rate. The effective portion of changes in the fair value of the hedging instrument is accumulated in the cash flow hedge reserve as a separate component of the equity.

IFRS 16, Leases

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

Trust F/1616 will apply the exemptions to not to recognize an asset and a liability as described above, for lease agreements with a term of less than 12 months (provided that they do not contain purchase or term renewal options) and for those agreements where the acquisition of an individual asset of the contract was less than USD\$5,000 (five thousand dollars). Therefore, payments for such leases will continue to be recognized as expenses within operating income.

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

Management of Fibra Inn recognized a right-of-use asset of \$5,013 and a lease liability of \$4,813 as an adoption effect of IFRS 16 on its statement of financial position. The Trust F/1616 made changes in its internal processes and fulfillment of contractual obligations, as a result of the existence of some agreements currently recorded as operating leases. There were no significant effects due to the fact that it mainly maintains leases where it operates under the figure of lessor. The lease agreements where Fibra Inn operates under the figure of lessee are mainly related to the rental of transportation equipment which is used as part of the hotel operation.

c. Basis of consolidation

i. Subsidiaries

The unaudited condensed consolidated financial statements include those of Fibra Inn and those of its subsidiaries.

- Administradora de Activos Fibra Inn, S.C., of which it holds a 99.9% of the capital, CIB/3096 Trust, CIB/3097 Trust and CIB/3058 Trust, where there is a non-controlling interest, as described in section ii below.

Control is achieved when Fibra Inn:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with an investee; and
- has the ability to affect those returns through its power over the investee.

Balances and transactions with the subsidiary company have been eliminated in the unaudited condensed consolidated financial statements.

Fibra Inn assessed, under IFRS 10, *Consolidated Financial Statements*, that it exerts control over all its subsidiaries as of June 30, 2019 and for the six-month period ended at such date.

In the same way, Fibra Inn continuously assesses whether it holds control on the service entities and concluded that in accordance with IFRS 10, *Consolidated Financial Statements*, it does not control such entities since it does not have the power to decide over the management of their relevant activities; nor the management of such entities; key decisions of its operations are taken by the stockholders of these companies, not by Fibra Inn; therefore, there is no control relationship, and they are considered only related parties.

ii. Non-Controlling Interest.

The unaudited condensed consolidated financial statements of Fibra Inn include the non-controlling interest related to its participation and control in the Trusts CIB/3096, CIB/3097 and CIB/3058; non-controlling interest is initially measured at the proportionate share of the net identifiable assets of the aforementioned Trusts.

Changes in the interest of Fibra Inn in the Trusts CIB/3096, CIB/3097 and CIB/3058 that do not result in a loss of control are accounted for in equity.

iii. Loss of control.

When Fibra Inn loses control, it writes off the assets and liabilities of the subsidiaries, any non-controlling interest, and other equity items. The resulting gain or loss will be recognized in profit or loss. If Fibra Inn maintained its interest, this would be prospectively measured at fair value at the date control is lost.

d. Authorization of the financial statements

The accompanying unaudited condensed consolidated financial statements were authorized for issuance by Ing. Oscar Eduardo Calvillo Amaya, Chief Executive Officer, and approved by the Technical Committee on July 23, 2019, represented by Ing. Victor Zorrilla Vargas as its President.

e. Income statement and comprehensive income statement

Costs and expenses presented in the unaudited condensed consolidated income statement were classified according to their nature.

Fibra Inn shows line items of gross margin and operating income since they are considered important performance indicators for the users of financial information. Income and expenses with operating nature are presented within this line item.

The Trust F/1616 presents in the statement of comprehensive income those accounting items that were already accrued but are still pending to be realized.

f. Statement of cash flows

Fibra Inn presents its statement of cash flows using the indirect method. In addition, Fibra Inn has chosen to present the cash received from interests as part of the investing activities and the cash from interest payments as part of the financing activities.

(3) CASH AND CASH EQUIVALENTS-

	As of June 30, 2019	As of December 31, 2018
Cash in banks	\$ 212,373	266,708
Cash equivalents (government bonds)	201,602	377,662
	<u>413,975</u>	<u>644,370</u>
Restricted cash	10,090	-
Total cash and cash equivalents	<u>\$ 424,065</u>	<u>644,370</u>

Article 187 clause III of the Mexican Income Tax Law establishes Trust F/1616 remaining equity not invested on real estate must be invested in government bonds that are registered with the National Securities Register, or in shares of investment entities or debt instruments. During the period, the Trust was in compliance with this article and invested the remaining contributed capital in different funds with high credit rating.

As of June 30, 2019, Trust F/1616 includes long-term restricted cash of \$10,090 as part of the reserve fund equivalent to six months of interest regarding the credit line obtained with BBVA Bancomer.

(4) PROPERTY, FURNITURE AND EQUIPMENT-

Property, furniture and equipment as of June 30, 2019 and December 31, 2018, are integrated as follows:

	As of June 30, 2019	As of December 31, 2018
Land	\$ 2,025,751	2,038,607
Buildings	7,754,602	7,466,572
Components of buildings	651,280	440,195
Machinery and equipment	488,813	345,956
Furniture and equipment	635,116	469,942
	<u>11,555,562</u>	<u>10,761,272</u>
Less accumulated depreciation	(1,082,639)	(1,990)
Less impairment of properties	<u>(1,107,296)</u>	<u>(1,101,776)</u>
	9,365,627	9,657,506
Constructions in progress	<u>1,901,880</u>	<u>945,926</u>
Total	<u>\$ 11,267,507</u>	<u>10,603,432</u>

As a result of measuring property, furniture and equipment at their fair value on the year ended December 31, 2018, the Trust F/1616 recognized a decrease in the revaluation surplus of \$143,281. Additionally, for the year ended December 31, 2018, the Trust recognized an impairment expense of \$522,764.

(5) TRUSTORS' EQUITY-

Benefits, contributions and repurchases-

- a) Trust F/1616's equity consists of a contribution of \$20 and of the proceeds of the issue of CBFIs.

Benefits-

- a) On January 24, 2019, the Acquisitions and Developments Director received, as part of his consideration, an equity instrument-based payment of 100,000 CBFIs, equivalent to a fair value of \$944, of which 35,000 CBFIs were put on sale at a price PS \$9.44 for the payment of the income tax withholding payable by the Executive corresponding to 35% under the LISR; of the remaining amount, the Executive can sell 33.3% of CBFIs, and the remnant has a sale restriction period of 2 years.
- b) On February 26, 2019, the Technical Committee of Fibra Inn approved, prior authorization of the majority of the independent members, a repayment of principal in the amount of \$93,733 with a factor of Ps\$ 0.1806 per outstanding CBFI. This distribution was paid in cash by Fibra Inn on March 15, 2019, at

total of 518,993,783 CBFIs that do not include repurchased certificates at the date of settlement for the period from October 1, 2018 to December 31, 2018.

- c) On April 26, 2019, the Technical Committee of Fibra Inn approved, prior authorization of the majority of the independent members, a repayment of principal in the amount of \$81,132 with a factor of Ps\$0.1569 per outstanding CBFI. This distribution was paid in cash by Fibra Inn on May 16, 2019, at total of 517,099,146 CBFIs that do not include repurchased certificates at the date of settlement for the period from January 1, 2019 to March 31, 2019.

Contributions-

- a) On February 25, 2019, an agreement to amend and totally restate Trust CIB/3097 was entered into; through this amendment and restatement, Fibra Inn granted 50% of its trustee rights to a new partner, this assignment includes the Real Surface Right and Hotel Trustee Rights. As a result of this assignment, as of June 30, 2019, the new partner contributed to Trust CIB/3097 an amount of \$325,948, and at the same time, a collection right of \$26,990 was created for Fibra Inn, who contributed this collection to such Trust's equity.
- b) On March 8, 2019, Fibra Inn entered into a Second Agreement to amend and restate Trust CIB/3058, through this amendment and restatement, the Trust recognizes a third Trustor and Trustee with an initial contribution of \$1,364 plus the amount of \$3,508 for expenses incurred in the signing of this agreement, which will form part of the trust equity, without changing the previously existing significant clauses.
- c) On April 30, 2019, an agreement to amend and totally restate Trust CIB/3096 was entered into; through this amendment and restatement, Fibra Inn granted 50% of its trustee rights to a new partner, this assignment includes the Real Surface Right and Hotel Trustee Rights. As a result of this assignment, as of June 30, 2019, the new partner contributed to Trust CIB/3096 an amount of \$145,645, and at the same time, a collection right of \$243,067 was created for Fibra Inn, who contributed this collection to such Trust's equity.

Repurchases

- a) On May 23, 2019, Fibra Inn announced the cancellation of the fund for the repurchase program of CBFIs not exercised and approved on April 26, 2018, established up to 5% of the securities issued on the Mexican Stock Exchange (Bolsa Mexicana de Valores), and announced the creation of a new fund for the repurchase of CBFIs of the Trust F/1616 for up to a maximum amount of resources of \$250,000 for the twelve-month period following the date of approval.
- b) During the six-month period ended June 30, 2019, Fibra Inn repurchased CBFIs of capital amounting to \$33,387.

(6) ACQUISITION OF HOTELS-

Fibra Inn determines the classification of the acquired hotels based on the fact that such hotels will be used in the normal course of business. The transactions related to the acquisition of hotels are accounted as business acquisitions. Such transactions are performed to continue with the expansion of operating activities related to the hotel industry in Mexico, in accordance with the established growth and expansion plans.

On January 10, 2019, through the Trust CIB/3096, it was entered into a buy-sell agreement of bare title and usufruct and constructions with reservation of ownership and subject to conditions precedent with respect to the Westin Monterrey Valle hotel. Of the price previously agreed in the promise to purchase and sale,

additional \$40,000 was negotiated for the final transaction price of \$740,000. A contingent base price of \$700,000 was set subject to the future transaction. Once the hotel is operating, Fibra Inn must pay a variable part as the negotiated conditions are met, and the seller may collect the variable price within the first 4 years or 4 years after May 1, 2019. As of March 29th, one of the conditions precedent of the agreement relating to obtaining a non-competition permit from the COFECE (Federal Economic Competition Commission) has been already fulfilled. From January 1 to June 30, 2019, Trust CIB/3096 has made payments totaling \$430,000, which form part of the final price.

During the month of May 2019, the Trust F/1616 announced two binding agreements for the sale of the hotels Holiday Inn & Suites Guadalajara Centro Historico and City Express Chihuahua. Both agreements are part of the capital recycling strategy of selling non-strategic assets. These hotels are considered non-current assets held for sale under the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and are presented on the consolidated financial statement position at an amount of \$198,919. Once the transactions are completed, Fibra Inn expects to obtain the amount of \$99,000 and \$95,000, respectively, for the sale of both hotels. Due to the early termination of both contracts, it is estimated to have disbursements of \$10,908, related to sale and penalty costs for hotel management. The resources resulting from both transactions will be used for improvements in the hotel portfolio, in the Hotel Factory and for repurchase of CBFIs.

(7) OTHER RELEVANT EVENTS-

- a) On January 10, 2019, the Irrevocable Trust 1451028243 was amended and restated, to which Fibra Inn previously contributed \$27,300 on September 9, 2016, in order to develop the Marriott Monterrey Aeropuerto hotel. The trust agreement was amended to give rights to Fibra Inn on the derivative and material possession of the real estate and hotel area. The purpose of the trust is to develop a real estate project for commercial use, offices for sale and/or rent and the development of land for the construction of a hotel close to the Monterrey Airport.
- b) On February 12, 2019, Fibra Inn disposed of a line of credit of \$200,000 contracted with BBVA Bancomer, which is available for up to \$300,000 effective until May 29, 2021. The Trust F/1616 paid a commission of \$1,908 for opening the credit line and will pay interest at a THIE 28 annual rate plus 1.50% every three months starting at the disposition date. Additionally, Fibra Inn gave \$10,090 as a reserve fund equivalent to six months of interests, which will be returned once the credit agreement ends. As of June 30, 2019, Fibra Inn has not settled the balance drawn.
- c) On March 28, 2019, Fibra Inn disposed of \$100,000 of the line of credit contracted with Actinver which is available for up to \$200,000 effective until May 29, 2020. At such date, the Trust F/1616 had settled, in previous periods, the commission for the credit line disposal. The Trust F/1616 will pay interest at THIE 28 annual rate plus 2.50% payable at the end of each month starting at the disposition date. The credit line can be disposed totally or partially by Fibra Inn in one or several disposals during the term of the contract being one year the maximum period for the payment of each credit line disposition. As of June 30, 2019, Fibra Inn has not settled the balance drawn.