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

**Condensed Notes to the Consolidated Financial Statements**

For the three-month period ended December 31, 2014

(In Thousands of Mexican Pesos)

## (1) COMPANY'S ACTIVITY

Trust F/1616 of Deutsche Bank México, S.A., ("Fibra INN", or the "Trust") 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 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 Raices – "FIBRA"*), meets the requirements to be treated as a transparent entity in Mexico for income tax purposes. 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 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 184 (223 and 224 in 2013) of the Income Tax Law, that the Trust must annually distribute at least 95 percent of its net tax result to CBFIs holders.

Administradora de Activos Fibra Inn, S.C. 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 has employment contracts with management personnel and provides support functions necessary to conduct the businesses of the Trust.

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

For the development of its operation, Fibra INN has entered into the following contracts with related parties:

i. Advisory services on acquisition, management and development of assets with Asesor de Activos Prisma, SAPI de CV. The management consulting services are permanent for all hotels that comprise the equity of the Trust, and are determined by the value of the related assets.The advisory services on acquisition and development are performed once for all hotels acquired and developed, and are determined by the agreed purchase price or developed property, as applicable. The established deadline for this contract is 10 years.

ii. Hotel management services contract with Gestor de Activos Prisma, S.A.P.I. de C.V. agreement. The hotel management services are permanent, for the corresponding hotels (some hotels contract with third-party hotel management services). These services were provided since December 26, 2013 and the stated term of the contract is 10 years.

iii. Personal services contract with Servicios Integrales Fibra Inn S.A.P.I. de C.V. and Impulsora Fibra Inn S.A.P.I. de C.V.

iv. Space rental contract with Operadora México Servicios y Restaurantes, SAPI de CV. Lease of spaces effective since December 26, 2013. Spaces granted as leases are those used to provide different lodging services. The term of this contract is 20 years.

***Integration of the portfolio-***

***Contributed portfolio-***

In March 2013, Fibra INN held an initial public offering ("IPO") of CBFIs in Mexico and entered into a series of "constitution/establishement transactions" whereby eight properties were contributed to the Trust in exchange for CBFIs.

Properties included in the contributed portfolio are as follows:

| Properties | CBFIs (1) | | Acquisition cost |
|---|---|---|---|
| Hampton Inn Galerías Monterrey | 12,015,747 | $ | 222,291 |
| Hampton Inn Querétaro | 11,609,890 | | 214,783 |
| Hampton Inn Saltillo | 15,607,634 | | 288,741 |
| Holiday Inn Express Saltillo | 14,058,791 | | 260,088 |
| Holiday Inn Express Toluca | 18,162,779 | | 336,011 |
| Holiday Inn Express Juárez | 9,858,177 | | 182,376 |
| Hampton Inn Reynosa | 2,249,436 | | 41,615 |
| Holiday Inn Express Monterrey | 12,319,736 | | 227,915 |
| | | $ | 1,773,820 |

(1) Properties making up the contributed portfolio were contributed by Adhering Trustors in exchange for 95,882,190 CBFIs.

***Acquisition portfolio-***

Properties included in the acquisition portfolio are as follows:

| Properties | | Acquisition cost |
|---|---|---|
| Holiday Inn Express Playa del Carmen | $ | 135,755 |
| Holiday Inn Express Toluca | | 76,000 |
| Holiday Inn Express Guadalajara UAG | | 186,937 |
| Holiday Inn Guadalajara Centro Histórico | | 139,982 |
| Holiday Inn Monterrey Valle | | 204,000 |
| Holiday Inn Puebla La Noria | | 193,600 |
| | $ | 936,274 |

***Hotels acquired subsequent to the IPO-***

In addition, Fibra INN acquired the following hotels after the IPO, which are presented as follows:

| Properties | | Acqusition cost |
|---|---|---|
| Camino Real Guanajuato | $ | 230,000 |
| Marriott Puebla | | 370,334 |
| Holiday Inn Coyoacán | | 381,000 |
| Wyndham Garden Irapuato | | 93,000 |
| México Plaza Celaya | | 139,000 |
| México Plaza León | | 150,000 |
| México Plaza Silao | | 80,000 |

| | |
|---|---|
| Holiday Inn Altamira | 113,020 |
| Aloft Guadalajara | 220,000 |
| Casa Grande Chihuahua | 105,500 |
| Casa Grande Delicias | 71,300 |
| Crowne Plaza Monterrey | 351,000 |
| Microtel Inn Suites by Wyndham Ciudad Juárea | 61,000 |
| Microtel Inn Suites by Wyndham Chihuahua | 73,000 |
| Microtel Inn Suites by Wyndham Culiacán | 55,000 |
| Microtel Inn Suites by Wyndham Toluca | 66,000 |
| México Plaza Andares Guadalajara | 183,000 |
| | 2,742,154 |

***Significant events-***

a) On January 14, 2014 the internal Corporate Governance Committee of the Trust authorized, according to a franchise agreement with Marriot International, the development of a Courtyard hotel in Saltillo, Coahuila. The total investment will be $198,000, which includes the construction of the building, land investment, working capital and acquisition expenses.

b) On January 16, 2014, the Trust obtained a credit line for $300,000, which will be destined to the acquisition and construction of hotels. The maturity of this credit is 180 days from the acquisition date and it is subject to an annual interest rate TIIE plus 2.5%.

c) On March 10, 2014, Fibra INN obtained a credit line for $500,000, which will be used to pay the binding contracts for the acquisition of hotels Aloft Guadalajara and Hotel Mexico Plaza Celaya. The maturity of this credit is August 14, 2014 and it is subject to an annual interest rate TIIE plus 2.5%.

d) On April 2, 2014, the Trust acquired the Hotel Aloft Guadalajara Las Americas at a price of $220,000 excluding taxes and acquisition expenses. Payment was made with the remaining $41,200 cash proceeds from the initial public offering and the rest through a line of credit obtained with a financial institution.

e) On April 3, 2014 the internal Corporate Governance Committee of the Trust authorized, according to a franchise agreement with Marriot International, the development of a Fairfield Inn & Suites by Marriot hotel in Ciudad del Carmen, Campeche. The total investment will be $188,900, which includes the construction of the building, land investment, working capital and acquisition expenses.

f) On May 5, 2014, the Trust acquired the México Plaza Silao hotel in the state of Guanajuato, which will be converted to the Wyndham Garden brand. The acquisition price was $80,000 plus $11,200 for tax payments and acquisition expenses. Payment was made with funds from a line of credit obtained with a financial institution.

g) On June 18, 2014, the Trust concluded with the construction of additional rooms in its properties with a total investment of $118,800 in the Holiday Inn Express Guadalajara Autónoma and Holiday Inn Express Playa del Carmen hotels.

h) On September 3, 2014, the Trust announced the signature of a binding agreement for the acquisition of 6 hotels, representing a total of 667 rooms under two brands: Casa Grande and Microtel Inn & Suites by Wyndham. The amount agreed for the acquisition of the hotels is $431,800 plus $48,800, which will be used for taxes and acquisition-related expenses.

i) On September 5, 2014, the Trust announced the signature of an agreement for the acquisition of Crowne Plaza Monterrey Airport in the state of Nuevo León. The amount of the acquisition was $351,000 plus $33,800, which will be used for taxes and acquisition-related expenses as well as the improvement of 38 rooms.

j) On September 9, 2014, the Trust informed that it contracted a credit line for $2,300,300 to finance its property acquisition and development expansion plan. The institutions participating in the credit line are: Banorte, Actinver, Banamex, BanRegio and Scotiabank. This bank debt is located in a cash credit line account that has a fiduciary and pledge collateral, it has a duration of 54 months and is to be written-off on the expiration date. The agreed interest rate is TIIE plus 2.5% for the first three years, plus two increases: an additional 0.25% during months 37 to 45 and a 0.5% additional increase during months 46 to 54.

k) On October 15, 2014, the Trust concluded the construction of additional rooms and the extension of its properties with an investment of $143,000 in its hotels Camino Real Guanajuato and Marriot Puebla.

l) On October 22, 2014, the Trust announced the subscription of CBFIs exclusively for investors of Fibra Inn. The global offering amounted $2,832,162 by subscribing 178,685,324 at a price of $15.85. As of December 31, 2014, the outstanding amount of CBFIs was of 437,019,542.

m) On November 10, 2014, the Trust signed a letter of intent with Operadora de Hoteles City Express, S.A. de C.V. to develop 10 hotels in different locations of the country during the next 2 years.

n) On November 21, 2014, the Trust acquired the Microtel Inn & Suites by Wyndham hotels in Culiacán and Ciudad Juárez. The acquisition price of these hotels was of $55,000 and $61,000 respectively, excluding taxes and acquisition costs. The total amount was paid with proceeds from the subscription of CBFIs executed in October.

o) On December 2, 2014, the Trust signed a private purchase agreement to acquire the México Plaza Guadalajara Andares hotel in the state of Jalisco. The acquisition price was of $183,000 plus $24,700 for the payment of taxes, acquisition expenses and investments for the change of brand name.

p) On December 11, 2014, the Trust settled the acquisition of the Crowne Plaza Monterrey Aeropuerto hotel. The purchase agreement of the hotel was announced on September 5, 2014.

q) On December 15, 2014, the Trust acquired two Casa Grande hotels, one in Chihuahua and the other in Delicias. The acquisition price of these hotels was of $105,500 and $71,300 respectively, excluding $10,500 and $6,500 respectively, for the payment of taxes and acquisition expenses and $9,200 for the change of brand name for the property of Chihuahua. The total amount was paid with proceeds from the subscription of CBFIs executed in October.

r) On December 17, 2014, the Trust acquired two Microtel Inn Suites & Suites by Wyndham hotels. The acquisition price was of $73,000 y $66,000 respectively, excluding $6,300 y $5,800 respectively, for the payments of taxes and acquisition expenses. The total amount was paid with proceeds from the subscription of CBFIs executed in October.

## (2) AUTHORIZATION AND BASIS OF PRESENTATION

**Authorization-**

The accompanying consolidated financial statements were authorized for issuance on February 26, 2015, by Ing. Oscar Eduardo Calvillo Amaya, Director of Finance, and are subject to the approval of the Technical Committee, represented by Ing. Victor Zorrilla Vargas as its President and which may modify such financial statements.

**Basis of presentation-**

***(a) Statement of complience***

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

***(b) Basis of measurement***

The Trust's consolidated financial statements have been prepared on the basis of historical cost.

***(c) Basis for financial statement consolidation***

The consolidated financial statements include those of Fibra INN and those of its subsidiary, Administradora de Activos Fibra INN, S.C., of which it holds a 99.9% of capital stock and where it holds control. 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.

Significant intercompany balances and transactions have been eliminated.

***(d) Local, functional and reporting currency***

The functional currency of the Trust is the Mexican peso, which is the same to its local and reporting currencies.

***(e) Income statement***

Costs and expenses presented in the 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.

***(f) Statement of cash flows***

Fibra INN presents its statement of cash flows using the indirect method.

**(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-**

The Trust's significant accounting policies are as follows:

***a) Financial instruments-***

Financial assets and financial liabilities are recognized when the Trust is subject to the underlying instrument's contractual terms.

Financial assets and liabilities are initially recognized at fair value. Transaction costs directly attributable to the acquisition or issuance of a financial asset or liability (other than the financial assets and liabilities recognized at fair value through profit or loss) are added or deducted from the fair value of financial assets or liabilities, if any, upon initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value with changes in profit or loss are immediately recognized in results. Financial assets and liabilities are offset and the net amount is presented in the statement of financial situation when and solely when, the Company has the legal right to offset the amounts and intends to either settle on a net basis, or realize the asset and settle the liability simultaneously.

The subsequent valuation of the financial instruments depends on the category in which they are classified. The accounting treatment for each category of financial instruments is described as follows:

As of the date of these consolidated financial statements, the Trust only maintains financial instruments classified as loans and receivables, as well as, short-term held-to-maturity assets as part of cash equivalents.

Financial assets

Financial assets are classified according to the following specific categories: financial assets at fair value through profit or loss, investments, and loans and receivables. Classification depends on the nature and the purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents consist mainly of bank deposits in checking accounts and short-term investments. Cash is stated at nominal value and cash equivalents are valued at fair value. The Trust considers as cash equivalents all highly liquid debt instruments purchased with an original maturity of three months or less. Cash equivalents are represented mainly by money market funds.

Trade accounts receivable and accounts receivable from related parties

Trade accounts receivable and other accounts receivable whose payments are fixed or can be determined, and which are not traded on an active market are classified as loans and receivables. Loans and receivables are recognized at amortized cost using the effective interest method, and are subject to impairment tests.

Impairment of financial assets

Financial assets other than the financial assets valued at fair value through profit or loss are subject to impairment tests at the end of each reporting period. Financial assets are deemed impaired when there is objective evidence that, as a consequence of one or more events occurring after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected. For financial assets recorded at amortized cost, the amount of impairment loss recognized is the difference between the carrying amount of the asset and the present value of future collections, discounted at the original effective interest rate of the financial asset.

Equity instruments

An equity instrument is any contract showing a residual share in the Trust's net assets. Equity instruments issued by the Trust are recognized according to the amount received, net of direct issuance costs.

When contributions are made to the Trust or it acquires properties that do not represent a business, in exchange for its equity instruments, the transaction is recorded as a share-based payment to third parties (other than to employees) payable through equity instruments and is measured based on the fair value of goods received, except when such value cannot be estimated reliably. Effects on the financial position are shown in the statement of changes in Trustors' equity as "equity contributions" and do not have an impact on the results of the period.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities.

Other financial liabilities, including loans, are initially recognized at fair value, net of transaction costs and are subsequently valued at amortized cost using the effective interest method, and interest expenses are recognized on an effective return base.

The effective interest rate method is a method for the calculation of the amortized cost of a financial liability and of the assignment of the financial expense along the period concerned. The effective interest rate is the rate that exactly discounts the estimated cash payments along the expected life of the financial liability (or, where adequate, in a shorter period) which represents the net amount in books of the financial liability at its initial recognition.

Derecognition of financial liabilities

The Trust derecognizes off financial liabilities if, and solely if, obligations are met, cancelled or expired.

Derivative financial instruments

Fibra INN values and records all operations with derivative financial instruments in the consolidated statements of financial position as either an asset or liability at fair value, regardless of the purpose of holding them. At the inception of the hedge accounting relationship of a derivate financial instrument, the Trust reviews that all hedge accounting requirements are complied, and documents its designation at the inception of the operation, describing the objective, characteristics, accounting treatment and the way how the measurement of effectiveness will be carried out, applicable to that operation.

Derivatives designated as hedge accounting recognize valuation changes, corresponding to the effective portion, temporarily in other comprehensive income and in profit or loss when the hedged item affects it, while the ineffective portion is recognized immediately in profit or loss, because due to the risk management strategy profile of Fibra INN, the hedging instrument qualifies as a cash-flow hedge.

Hedge accounting is discontinued when Fibra INN revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, when it no longer qualifies for hedge accounting or effectiveness is not high enough to compensate changes in fair value or cash flows of the hedged item.

When discontinuing cash flow hedge accounting, any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. Where a hedge for a forecasted transaction is proved satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in other comprehensive income in equity are recognized in proportion to profit or loss, to the extent that the forecasted asset or liability affects it.

***b) Property, furniture and equipment-***

Property, furniture and operating equipment of the hotels are initially recognized at their acquisition cost. Cost includes expenditures directly attributable to the acquisition of the assets, costs of bringing the assets to conditions intended for its use and capitalized borrowing costs.

An item of property, furniture and equipment, is recognized when the inherent risks and benefits to the use the Fibra INN intends to give to that asset, are acquired.

Improvements that have the effect of increasing the asset's value, either because they increase the capacity of service, improve efficiency or extend the asset's useful life, are capitalized once it is probable that the future economic benefits will flow to Fibra INN and the costs may be reliably estimated. All maintenance and repairing costs that do not meet the requirements to be capitalized are recognized in profit or loss.

When components of an item of property, furniture and equipment have different useful lives, these are accounted for separately (main components).

Property, furniture and operating equipment of the hotels are presented at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated using the straight-line method based on the remaining useful lives of the assets net of its residual values. Fibra INN has determined that the residual values of its assets of property, furniture and equipment, are not greater than zero, given that there is no expectation to obtain future economic benefits through sale.

Estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, and the effect of any change in the estimates recorded is recognized on a prospective basis.

The remaining average useful life of property, furniture and equipment is the following:

| | Years |
|---|---|
| Buildings | 65 |
| Components of buildings | 8 |
| Furniture and equipment | 13 |
| Machinery and equipment | 12 |

An item of property, furniture and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, furniture and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. The gain or loss is recognized on a net basis within the other costs and expenses (income) line item.

***c) Impairment of long-lived assets-***

Fibra INN reviews the book values of its tangible and intangible assets to determine if there is any indicator that those assets have suffered any impairment loss at the end of each reporting period. If there is any indicator, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss, if they exist. When it is not possible to estimate the recoverable amount of an individual asset, Fibra INN estimates the recoverable amount of the cash generating unit to which such asset belongs. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. When evaluating the value in use of an asset, the future estimated cash flows are discounted to its present value using a pre-tax discount rate that reflects the actual evaluation of the market in respect to the time value of money and the specific risks of the asset for which estimates of future cash flows have not been adjusted.

If it is estimated that the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized in profit or loss.

When an impairment loss is reversed subsequently, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined if an impairment loss had not been recognized for such asset (or cash-generating unit) in prior years.

During the period, Fibra INN has not recognized any impairment losses.

***d) Provisions-***

Provisions are recognized when there is a present obligation as a result of a past event, which will probably result in an outflow of economic resources, and can be reasonably estimated.

***e) Employee benefits***

*i. Defined benefit plans*

A defined benefit plan is a benefit plan at the end of a labor relationship different from one of defined contributions. The Trust's net obligations with respect to the defined-benefit pension plans are calculated separately for each plan, estimating the amount of future benefit accrued by employees in return for their services in ongoing and past periods; that benefit is discounted to determine its present value, and the costs for the services that have not been recognized and the fair value of the plan assets are deducted. The discount rate is the yield at the reporting date of the government bonds that have maturity dates approximate to the maturities of the Trust's obligations which are denominated in the same currency in which benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Fibra INN recognizes the actuarial gains and losses arising from the defined benefit plans in the income statement, in the period in which they occur.

*ii. Termination benefits*

Termination benefits are recognized as an expense when the Trust's commitment can be evidenced, without real possibility of reversing, with a detailed formal plan either to terminate employment before the normal retirement date, or else, to provide benefits for termination as a result of an offer that is made to encourage voluntary retirement. The benefits from termination in cases of voluntary retirement are recognized as an expense, solely if the Trust has made an offer of voluntary retirement, the offer is likely to be accepted, and the number of acceptances can be estimated reliably. If the benefits are payable no later than 12 months after the reporting period, then they are discounted at present value.

*iii. Short term benefits*

Short-term employee benefit obligations are valued on a basis without discount and are expensed as the respective services are rendered. A liability is recognized for the amount expected to be paid under short-term cash bonuses plans if the Trust has a legal or assumed obligation to pay these amounts as a result of past services provided by the employee and the obligation can be estimated reliably.

***f) Revenue recognition-***

Revenue is obtained by the operation of hotels and includes rental of rooms (lodging), rental of property and other revenue, which are recognized when the services are rendered.

Fibra INN recognizes revenue for leasing of rooms (lodging) in the income statement as identified by its legal form. Nevertheless, such revenue is recognized in accordance to the recognition criteria for the rendering of services, that is, when the amount and the costs of the transaction can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity and the lodging services have been rendered.

Revenue from property leasing is recognized for the rents obtained. These revenues are recognized on a straight-line basis over the terms of the contract at the moment in which the service is accrued, when the amounts and the costs related to the transaction can be measured reliably and it has been determined that is probable that the economic benefits will flow to the Trust. The term of the lease is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Revenue obtained from contingent rents (such as performance level of the properties) are recognized when meeting the conditions that result in the economic benefits flowing to the Trust are probable and the amount of the transaction can be reliably estimated.

### *g) Income taxes-*

As mentioned in Note 1, the Trust is eligible for and intends to maintain its current status as a "*Fideicomiso de Inversiones en Bienes Raices"* (FIBRA) for income tax purposes and, therefore, does not recognize a provision for income taxes. However its subsidiary is subject to income taxes and therefor the consolidated financial statements reflect the associated impacts. Deferred income taxes are recognized over the temporary differences between the carrying amount of assets and liabilities included in the financial statements, and their corresponding tax values, which are used to determine the tax result, applying the corresponding tax rates to the expected reversal of these differences.

A deferred tax asset is recognized for all deductible temporary differences, to the extent probable that Fibra INN dispose of future taxable profit against which the deductible temporary differences can be utilized. These assets and liabilities are not recognized when the temporary differences arise from goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that does not affect the accounting or tax result.

Fibra INN does not recognize a deferred tax liability for the temporary differences related to investment in subsidiaries as it controls the reversal of such temporary differences, and it is not probable that they will be reversed in a foreseeable future. Deferred tax assets arising from temporary differences associated to such investments and interests are recognized only to the extent that it is probable that sufficient taxable profit will be available against which the temporary difference can be utilized and the temporary difference is expected to reverse in the foreseeable future.

### *h) Foreign currency transactions-*

Foreign currency refers to currency different to Fibra INN's functional currency. Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded in the consolidated income statement.

### *i) Business combinations-*

Business combinations are accounted using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to FIBRA INN plus the liabilities incurred by FIBRA INN with the former owners of the acquiree and the equity interests issued by FIBRA INN in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed at the date of acquisition. At the reporting date, the Company has not recognized goodwill in its consolidated financial statements.

## (4) CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the accounting policies of Fibra INN, as described in note 3, management is required to make judgments, estimates and assumptions about the carrying amount of certain assets and liabilities. Estimates and assumptions are based on historical experience and other factors considered relevant. The actual results may differ from these estimates. The related estimates and assumptions are reviewed continuously. Changes to accounting estimates are recognized in the period in which the estimate is changed if the change affects solely that period, or the current period and future periods if the change affects both current and future periods.

### *a. Critical judgments in the application of accounting policies-*

The following are the critical judgments, other than those involving estimates (see below), that management has developed in the process of applying the accounting policies of Fibra INN and which have the most significant effect on the amounts recognized in the consolidated financial statements.

<u>Classification of leases-</u>

Leases are classified according to the extent that risks and rewards of ownership of the leased asset are transferred to Fibra INN or the lessee, based on the substance of the transaction, rather than its legal form. Based on an evaluation of the terms and conditions of the agreements, Fibra INN has determined that it maintains substantially all the risks and significant rewards of ownership of these goods and, therefore, it has classified its leases as operating leases.

<u>Business combinations or acquisition of assets-</u>

Management based on its professional judgment determines if the acquisition of a a group of assets constitutes a business combination. This determination may have a significant impact in how the acquired assets and assumed liabilities are accounted for, both at the initial recognition and subsequently.

<u>Classification of a hotel (investment property/assets)-</u>

The management of the Trust uses its professional judgment to determine the appropriate classification of both the contributed and acquired hotels, as property, furniture and equipment, over the basis that the hotels are used in the normal course of business, and therefore, they do not qualify as investment properties.

<u>Income taxes-</u>

In order to continue to be eligible as a FIBRA for income tax purposes, the Trust must comply with certain requirements of this tax regime, which relate to issues such as the annual distribution of at least 95 percent of taxable income. According to the Trust, it will continue to be eligible under the FIBRA tax regime.

### *b. Main sources of uncertainty in the assumptions-*

The following are the key assumptions about the future and other key sources of estimation uncertainty at the end of the reporting period, which have a significant risk to result in a material adjustment to the carrying amount of assets and liabilities on the next financial period.

<u>Useful lives and residual values of property, furniture and equipment-</u>

Useful lives and residual values of items of property, furniture and equipment are used to determine the amortization and depreciation of assets and are defined according to the analysis by internal and external specialists. Useful lives are periodically reviewed, at least once a year, and are based on the current conditions of assets and the estimate of the period during which they will continue to generate economic benefits to the Trust. If there are changes in the estimate of useful lives, the carrying amount of assets is affected prospectively, as well as the corresponding depreciation expense.

Impairment of long-lived assets-

The carrying amount of long-lived assets is reviewed for impairment in case that situations or changes in the circumstances indicate that it is not recoverable. If there are impairment indicators, a review is carried out to determine whether the carrying amount exceeds is recoverability value and whether it is impaired. In the impairment evaluation, assets are grouped in the cash generating unit to which they belong. The recoverable amount of the cash generating unit is calculated as the present value of future cash flows that the assets are expected to produce. There will be impairment if the recoverable value is less than the carrying amount.

Fibra INN defines the cash generating units at the individual hotel level and also estimates the periodicity and cash flows that it should generate. Subsequent changes in grouping cash generating units, or changes in the assumptions underlying the estimate of cash flows or the discount rate, could impact the carrying amounts of the respective assets.

Calculations of value in use require the Trust to determine the cash flows generated by the cash generating units and an appropriate discount rate to calculate its present value. Fibra INN uses cash flows projections based on market conditions as part of its critical assumptions. In the same way, for purposes of the discount rate and the perpetuity growth, market risk premium indicators are used and long-term growth expectations for the markets in which Fibra INN operates.

Defined benefit plans-

Fibra INN uses assumptions to determine the best estimate for these benefits. Assumptions and estimates are established in conjunction with independent actuaries. These assumptions include demographic hypothesis, discount rates and expected increases in remunerations and future permanence, among others. Although the assumptions are deemed appropriate, a change in such assumptions could affect the value of the employee benefit liability and the results of the period in which it occurs.

## (5) CASH AND CASH EQUIVALENTS-

| | | |
|---|---|---|
| Cash in Banks | $ | 224,228 |
| Cash equivalents (government bonds) | | 884,453 |
| Total cash and cash equivalents | $ | 1,108,681 |

Article 87 clause III of the Mexican Income Tax Law establishes that the capital contribution that was not utilized to acquire properties must be invested in government bonds that are registered with the National Securities Register, shares of investment entities or debt instruments. During 2013, the Trust invested in a variety of instruments with a high credit rating.

## (6) TRADE AND OTHER ACCOUNTS RECEIVABLE-

| | | |
|---|---|---|
| Clients for hotel services | $ | 86,203 |
| Other accounts receivable | | 20,666 |
| | $ | 106,869 |

## (7) PROPERTY, FURNITURE AND EQUIPMENT

| | | |
|---|---|---|
| Land | $ | 1,093,097 |
| Buildings | | 4,241,066 |
| Components of buildings | | 271,870 |
| Machinery and equipment | | 183,720 |
| Furniture and equipment | | 220,190 |
| | | 6,009,943 |
| Less accumulated depreciation | | 158,819 |
| | | 5,851,124 |
| Constructions in progress | | 229,411 |
| **Total** | $ | 6,080,535 |

## (8) TRUSTORS' EQUITY

***Contributions-***

a. The Trust´s equity consists of a contribution of $20 and of the proceeds of the issue of CBFIs.

b. As described in note 1, on March 13, 2013, the Trust carried out an IPO of CBFIs in Mexico and other international markets (the "Offering"). The overall amount of both the primary and secondary Offerings is $4,834,683 where 261,334,218 CBFIs were offered, with an over-allotment of $18.5 pesos, in the Mexican Stock Exchange (Bolsa Mexicana de Valores (BMV)), and in foreign markets.

   In relation to the Offering, certain shareholders contributed to Fibra INN the hotels that comprise the Acquisition Portfolio in Exchange for CBFIs, valued at $1,773,820 representing 95,882,190 CBFIs, as mentioned in note 1.

c. As mentioned in note 1, dated October 22, 2014, the Trust made a private subscription of CBFIs. The amount of the global offering was of 178,685,324 CBFIs at the price of $15.85 each.

***Distributions-***

a. Based on the terms and conditions established in Appendix 12.9 of the Trust's Contract, a cash distribution from the Trust's taxable base for the period from October 1 to December 31, 2013 was declared by the Technical Committee, which was paid in cash on March 12, 2014 for a total amount of $6,917,051, with value of $0.0268 per CBFI. On the same date, additional distributions for a total amount of $54,763,649, $0.2120 per CBFI were approved.

b. Based on the terms and conditions established in Appendix 12.9 of the Trust's Contract, a cash distribution from the Trust's taxable base for the period from January 1 to March 31, 2014 was declared by the Technical Committee, which was paid in cash on May 12, 2014 for a total amount of $5,699 with value of $0.0220 per CBFI. On the same date, a capital reimbursement for a total amount of $53,274 $0.2062 per CBFI was approved.

c. Based on the clause 12.9 of the Trust´s Contract, a cash distribution from the Trust´s capital reimbursement for the period of April 1 to June 30, 2014 was declared for execution through a cash payment on August 11, 2014 for a total amount of $43,481 with value of 0.1683 per CBFI.

d. Based on the clause 12.9 of the Trust´s Contract, a cash distribution from the Trust´s capital reimbursement for the period of July 1 to September 30, 2014 was declared for execution through a cash payment on November 10, 2014 for a total amount of $59,999 with value of 0.2322 per CBFI.

## (9) 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 during 2014 were accounted as business acquisitions. Such transactions were 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.

The fair value of the net acquired assets are presented below:

| Business acquired | Main activity | Date of acquisition | Fair value |
|---|---|---|---|
| Aloft Guadalajara | Hotel operation | April 2, 2014 | $ 220,000 |
| Holiday Inn Altamira | Hotel operation | March 31, 2014 | $ 113,020 |
| Hotel México Plaza Aeropuerto, Silao | Hotel operation | May 5, 2014 | $ 80,000 |
| Hotel Casa Grande, Chihuahua | Hotel operation | December 15, 2014 | $ 105,500 |
| Hotel Casa Grande, Delicias | Hotel operation | December 15, 2014 | $ 71,300 |
| Hotel Microtel Inn & Suites by Wyndham, Ciudad Juárez | Hotel operation | November 21, 2014 | $ 61,000 |
| Hotel Microtel Inn & Suites by Wyndham, Chihuahua | Hotel operation | December 17, 2014 | $ 73,000 |
| Hotel Microtel Inn & Suites by Wyndham, Culiacán | Hotel operation | November 21, 2014 | $ 55,000 |
| Hotel Microtel Inn & Suites by Wyndham, Toluca | Hotel operation | December 17, 2014 | $ 66,000 |
| Hotel Crowne Plaza, Monterrey | Hotel operation | September 15, 2014 | $ 351,000 |
| Hotel México Plaza Andares, Guadalajara | Hotel operation | December 2, 2014 | $ 183,000 |

Fibra INN has not recognized any goodwill related to the acquisition of hotels performed during the reporting period.