Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and Subsidiary

Consolidated Financial Statements for the Years Ended December 31, 2016, 2015 and 2014, and Independent Auditors' Report Dated March 31, 2017

Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and Subsidiary

Independent Auditors' Report and Consolidated Financial Statements 2016, 2015 and 2014

Table of contents **Page**

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Independent Auditors' Report to the Technical Committee and Trustees of Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria)

Opinion

We have audited the accompanying consolidated financial statements of Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and subsidiary ("FibraHotel"), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of comprehensive income, the consolidated statements of changes in trustees' equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and subsidiary as of December 31, 2016, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor´s Responsibilities for the Audit of Financial Statements* section of our report. We are independent of FibraHotel with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and with the Ethics Code issued by the Mexican Institute of Public Accountants *(IMCP Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code.

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

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Evaluation of acquisitions of properties as assets or businesses

FibraHotel´s management uses its professional judgment to determine whether the acquisition of a property, or a portfolio of properties, represents a business combination or an acquisition of assets. This determination could have a significant impact on how the assets acquired and liabilities assumed are accounted for, both in their initial recognition and in subsequent years. The test of this judgment was significant for our audit, because the evaluation process requires us to test the purchase agreements of the properties based on the IFRS criteria to define a business, which was included in our audit procedures. Based on our audit tests of this management judgment and the definition of business included in IFRS 3, Business Combinations, we have concluded that the acquisitions of properties treated as assets by FibraHotel, are reasonably correct because no inputs or processes are acquired from the vendors of such properties in these transactions.

Tax compliance to maintain the status as a FIBRA in accordance with the Income Tax Law.

As discussed in Note 1 to the consolidated financial statements, to maintain its status as a FIBRA, the Mexican Tax Administration Service ("SAT") has established, in articles 187 and 188 of the Income Tax Law, that the Trust must annually distribute at least 95% of its net tax result to the holders of its CBFIs, apart from other requirements. The test of compliance with such articles was significant for our audit because it is the fundamental going concern principle of the Trust. As a result, our audit procedures included the review of the annual tax result of the Trust and the involvement of tax experts to evaluate compliance with the principal requirements contained in such articles under the laws in effect as of December 31, 2016. Given the importance of the aforementioned matter, a change in the entity's status based on the Income Tax Law may have a material effect on the consolidated financial statements. The results of our audit procedures were reasonable.

Other information included in the document containing the consolidated financial statements

FibraHotel´s Management is responsible for other information. Other information includes the information that will be incorporated in the Annual Report which FibraHotel is required to prepare in compliance with article 33, section I, subsection b) of Title Fourth, Chapter First of the General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico, and the Instructions which accompany those provisions ("the Provisions"). The Annual Report is expected to be available after the date of this audit report.

Our opinion on the consolidated financial statements will not cover the other information and we will not express any form of assurance thereon.

In relation with our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when it is available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appears to contain a material misstatement. When we read the Annual Report, we will issue the legend on the reading of the annual report, as required in Article 33, Section I, subsection b) numeral 1.2 of the Provisions.

Responsibilities of Management for the Consolidated Financial Statements

FibraHotel´s Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as FibraHotel´s management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing FibraHotel´s ability to continue as a going concern, disclosing any going concern issues and using the going concern basis of accounting unless management either intends to liquidate FibraHotel or to cease operations, or has no realistic alternative to do so.

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Independent Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, could reasonably be expected to influence the economic decisions taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

a) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures regarding those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

b) Obtain an understanding of internal control relevant to the audit 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.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

d) Conclude on the appropriateness of management´s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on FibraHotel's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors´ report. However, future events or conditions may cause FibraHotel to cease to continue as a going concern.

e) Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with FibraHotel's management regarding, among other matters, the planned scope and timing of the audit and the significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to FibraHotel's management a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with FibraHotel's management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Alexis Hernández Almanza

Mexico City, Mexico

March 31, 2017

Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and Subsidiary

Consolidated Statements of Financial Position

As of December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

Assets	**Notes**	**2016**	**2015**	**2014**
Current assets:				
Cash, cash equivalents and restricted cash	**5.**	$ 448,829	$ 376,825	$ 2,091,905
Trade accounts receivable and other receivables	**6.**	242,685	207,912	169,174
Due from related parties	**13.**	-	3,190	3,190
Recoverable taxes, mainly value-added tax		228,709	288,545	234,063
Prepaid expenses		16,627	5,788	2,614
Total current assets		936,850	882,260	2,500,946
Non-current assets:				
Hotel properties, furniture and operating equipment – Net	**7.**	9,970,023	7,535,661	6,725,074
Properties under development	**8.**	1,396,600	2,310,689	773,571
Security deposits		2,380	1,813	1,654
Deferred income taxes	**11.**	3,298	4,055	3,995
Derivative financial instruments	**12b.**	120,887	11,441	-
Total non-current assets		11,493,188	9,863,659	7,504,294
Total assets		$ 12,430,038	$ 10,745,919	$ 10,005,240

Liabilities and Trustees' Equity				
Current liabilities:				
Current portion of long-term debt	**10.**	$ 98,288	$ 7,849	$ -
Suppliers and accrued expenses	**9.**	348,107	316,936	233,880
Taxes payable		6,868	5,110	4,370
Total current liabilities		453,263	329,895	238,250
Long-term liabilities:				
Debt	**10.**	2,598,743	844,619	-
Total long-term liabilities		2,598,743	844,619	-
Total liabilities		3,052,006	1,174,514	238,250
Trustees' equity:				
Contributions from trustees	**14.**	8,737,636	9,160,109	9,495,343
Unsubscribed equity		-	(15)	(15)
Retained earnings		580,354	414,383	271,662
Valuation effect of derivative financial instruments	**12b.**	60,042	(3,072)	-
Total trustees' equity		9,378,032	9,571,405	9,766,990
Total liabilities and trustees' equity		$ 12,430,038	$ 10,745,919	$ 10,005,240

See accompanying notes to consolidated financial statements.

Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

	Notes	2016	2015	2014
Revenues from:				
Rooms		$ 2,057,257	$ 1,541,320	$ 1,162,025
Food and beverages		468,397	367,525	289,662
Real estate rentals		79,832	75,393	68,797
Other income		29,519	23,699	10,280
		2,635,005	2,007,937	1,530,764
Costs and expenses:				
Rooms		(402,676)	(288,706)	(198,587)
Food and beverages		(285,813)	(215,273)	(164,666)
General and administrative		(1,103,084)	(833,778)	(585,196)
Property		(33,911)	(24,905)	(21,644)
Corporate		(252,458)	(211,953)	(160,203)
Depreciation	**7.**	(296,930)	(213,782)	(162,930)
Business acquisition costs		(7,676)	(15,766)	(73,689)
Other income (expenses), Net		3,913	5,930	(31,783)
Interest income		11,173	34,327	120,807
Interest expenses		(40,282)	-	-
Other financial expenses		(13,948)	(4,063)	-
Foreign exchange (loss) gain, Net		2,364	(508)	3,572
		(2,419,328)	(1,768,477)	(1,274,319)
Income before income taxes		215,677	239,460	256,445
Income taxes	**11.**	1,787	2,884	2,742
Consolidated net income		213,890	236,576	253,703
Other comprehensive income:				
Gain (loss) on hedging instruments		63,114	(3,072)	-
Consolidated net comprehensive income		$ 277,004	$ 233,504	$ 253,703
Net income per weighted average CBFIs with economic rights (pesos)		$ 0.4327	$ 0.4786	$ 0.5134
Net income per weighted average CBFIs (pesos)		$ 0.4282	$ 0.4737	$ 0.5080
Weighted average CBFIs with economic rights		494,273,561	494,273,561	494,189,262
Weighted average outstanding CBFIs		499,401,766	499,401,766	499,401,766

See accompanying notes to consolidated financial statements.

Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and Subsidiary

Consolidated Statements of Changes in Trustees' Equity

For the years ended December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

	Number of CBFIs	Contributions from trustees	Unsubscribed equity	Retained earnings	Valuation effect of derivative financial instruments	Total trustees' equity
Balances as of January 1, 2014	$ 499,401,766	$ 9,846,459	$ (15)	$ 84,845	$ -	$ 9,931,289
Distribution to trustees	-	(351,116)	-	(66,886)	-	(418,002)
Consolidated net comprehensive income	-	-	-	253,703	-	253,703
Balances as of December 31, 2014	499,401,766	9,495,343	(15)	271,662	-	9,766,990
Distribution to trustees	-	(335,234)	-	(93,855)	-	(429,089)
Consolidated net comprehensive income	-	-	-	236,576	(3,072)	233,504
Balances as of December 31, 2015	499,401,766	9,160,109	(15)	414,383	(3,072)	9,571,405
Payment of unsubscribed equity	-	-	15	-	-	15
Distribution to trustees	-	(422,473)	-	(47,919)	-	(470,392)
Consolidated net comprehensive income	-	-	-	213,890	63,114	277,004
Balances as of December 31, 2016	$ 499,401,766	$ 8,737,636	$ -	$ 580,354	$ 60,042	$ 9,378,032

See accompanying notes to consolidated financial statements.

Fideicomiso Irrevocable No. F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014
(In thousands of Mexican Pesos)

	2016	2015	2014
Cash flows from operating activities:			
Consolidated net income	$ 213,890	$ 236,576	$ 253,703
Adjustments for non-cash items:			
Income taxes recognized in net income	1,787	2,884	2,742
Adjustments for:			
(Gain) loss on sale of furniture and hotel equipment	(1,793)	2,439	15,982
Depreciation	296,930	213,782	162,930
Interest income	(11,173)	(34,327)	(120,807)
Interest expenses	40,282	-	-
Other financial expenses	13,948	4,063	-
	553,871	425,417	314,550
Changes in working capital:			
Trade accounts receivable and other receivables	(34,773)	(38,738)	(62,778)
Due from related parties	3,190	-	(374)
Recoverable taxes, mainly value-added tax	63,061	(52,879)	(29,657)
Prepaid expenses	(10,839)	(3,174)	(653)
Security deposits	(567)	(159)	(749)
Suppliers and accrued expenses	5,785	83,056	76,720
Taxes payable	1,758	740	956
Income tax paid	(4,243)	(6,331)	(4,570)
Net cash generated by operating activities	577,243	407,932	293,445
Cash flows from investing activities:			
Businesses acquired	(244,826)	(189,359)	(1,764,318)
Acquisition of hotel properties, furniture and operating equipment	(243,266)	(302,068)	(663,319)
Proceeds from sale of furniture and hotel operating equipment	2,098	3,184	1,379
Investment in development projects	(1,261,461)	(2,071,817)	(265,880)
Interest received	11,173	34,109	120,807
Net cash used in investing activities	(1,736,282)	(2,525,951)	(2,571,331)
Cash flows from financing activities:			
Proceeds from borrowings	1,844,562	852,468	-
Derivative financial instrument payment	(46,332)	(14,513)	-
Capitalized interest	(57,255)	(1,864)	-
Interest paid	(25,592)	-	-
Distribution to trustees	(470,392)	(429,089)	(418,002)
Other financial expenses	(13,948)	(4,063)	-
Net cash generated by (used in) financing activities	1,231,043	402,939	(418,002)
Cash, cash equivalents and restricted cash			
Net increase (decrease) in cash, cash equivalents and restricted cash	72,004	(1,715,080)	(2,695,888)
Cash, cash equivalents and restricted cash at the beginning of the year	376,825	2,091,905	4,787,793
Cash, cash equivalents and restricted cash at the end of the year (including restricted cash of $241,103, $205,982 and $1,968,184 as of December 31, 2016, 2015 and 2014, respectively)	$ 448,829	$ 376,825	$ 2,091,905

See accompanying notes to consolidated financial statements.

(In thousands of Mexican Pesos)

1. Activities and significant events

Fideicomiso F/1596 (Deutsche Bank México, S. A. Institución de Banca Múltiple, División Fiduciaria) and Subsidiary (jointly referred as to "FibraHotel") was established as a real estate investment trust on July 31, 2012 by Concentradora Fibra Hotelera Mexicana, S. A. de C. V., (the "Trustor") and Deutsche Bank México, S. A., Institución de Banca Múltiple, División Fiduciaria (the "Trustee"). FibraHotel was established mainly to develop, acquire and hold real estate properties for use in hotel operations. The hotel services offered may be limited, select, complete and long stay, depending on the brand affiliation and service operators. The hotels in the FibraHotel portfolio operate under the following brands:

Live Aqua	One	Sheraton
Fiesta Americana Grand	Fiesta Inn Lofts	Fairfield Inn & Suites by Marriott
Fiesta Americana	Live Aqua Boutique	AC Hotels by Marriott
Fiesta Inn	Camino Real & Suites	Courtyard by Marriott
Gamma by Fiesta Inn	Real Inn	

To carry out its operations, FibraHotel has entered into planning advisory agreements with Administradora Fibra Hotelera Mexicana, S. A. de C. V. ("Administradora Fibra Hotelera") (a related party), under which it pays an annual fee payable each quarter, equivalent to 1% of the carrying value of undepreciated assets, net of debt. It also has entered into hotel operations contracts with Grupo Posadas, S. A. B. de C. V. ("Posadas"), Grupo Real Turismo, S. A. de C. V. ("Real Turismo"), Operadora Marriott, S. A. de C. V. ("Marriott International") and Starwood Hotels & Resorts Worldwide, Inc. ("Starwood Hotels") (collectively "Operadoras"), which establish a fee based on the hotels' gross operating profit, among other metrics. FibraHotel has also entered into lease agreements with Posadas which provide fixed income and, as the case may be, variable income, based on the income from operations.

FibraHotel has no employees and therefore no labor obligations, except for joint and several obligations which might arise due to noncompliance with the labor and tax obligations of the entities which render it personnel administrative and operating services. Any administrative services required are provided by related parties and third parties.

FibraHotel, as a real estate investment trust ("FIBRA"), qualifies to be treated as a pass-through entity for Mexican federal income tax purposes in accordance with the Mexican Income Tax Law ("LISR"). Therefore, all income derived from FibraHotel's operations is attributed to the holders of its real estate trust certificates ("CBFIs" for its name in Spanish) and FibraHotel itself is not subject to income tax in Mexico. In order to maintain FIBRA status, the Income Tax Law ("ISR" for its name in Spanish) has established in Articles 187 and 188, FibraHotel must, among other requirements, distribute at least 95% of its net taxable income each year to the holders of its CBFIs. On October 12, 2012, FibraHotel obtained a ruling from the Mexican Treasury Department, published in the Federal Official Gazette, formally establishing FibraHotel as a FIBRA.

Fibra Hotelera S. C. is a 99.99% owned subsidiary of Fideicomiso F/1596. Its responsibilities include managing the business, providing maintenance to the real estate properties and hotels, obtaining necessary licenses and permits, supervising projects involving renovation, development and remodeling, providing insurance coverage, oversight of public services, and negotiating hotel management contracts. Fibra Hotelera, S. C. is subject to the payment of regular Income Tax ("ISR").

The address of FibraHotel is Avenida Santa Fe No. 481 Piso 7 Col. Cruz Manca, Cuajimalpa de Morelos, 05349, Mexico City.

a. ***Portfolio Composition***

The detail of the operating and leasing portfolio of FibraHotel by operator is as follows:

Operator	Number of hotels de hotels as of December 31					
	2016		2015		2014	
	Operating agreement	Leasesing agreement	Operating agreement	Leasesing agreement	Operating agreement	Leasing agreement
Posadas	58	3	49	3	46	3
Real Turismo	5	-	5	-	5	-
Marriott International	8	-	4	-	1	-
Starwoods Hotels	1	-	1	-	1	-
Total	72	3	59	3	53	3
Total operating hotels	72		62		56	
Total rooms	10,422		8,507		7,656	

As of December 31, 2016, 2015 and 2014, 10, 18 and 13 hotels were under development respectively.

Construction contracts have been signed with different real estate developers to perform the in part or the complete construction of the hotels which make up the development portfolio. The investments by FibraHotel regarding properties under development as of December 31, 2016, 2015 and 2014, amount to $1,396,600, $2,310,689 and $773,571, respectively, presented in the statement of financial position under the heading “Properties under development”.

b. ***Business acquisition***

During 2016, 2015 and 2014, FibraHotel concluded the acquisition of one hotel for 2016 and 2015, and 14 hotels for 2014. The fair value of the net assets acquired are as follows:

Year	Land	Building	Hotel furniture and operating equipment	Total
2016	$ 34,376	$ 203,533	$ 6,917	$ 244,826
2015	$ 38,660	$ 133,847	$ 16,852	$ 189,359
2014	$ 320,129	$ 1,269,354	$ 174,835	$ 1,764,318

The fair value of the aforementioned net assets acquired is determined based on the income approach and the market approach. The income approach is based on the present value of future cash flows generated by the assets, taking into consideration the characteristics of the business, such as income, costs and expenses, among others, and is commonly used to determine the fair value for the types of assets maintained by the Trust. As of December 31, 2016, 2015 and 2014, final fair values using the income and market approach have been obtained. The fair value measurements of the net assets acquired during the years ended December 31, 2016, 2015 and 2014, qualify as Level 2 measurements in accordance with the fair value hierarchy.

Below is a summary of the revenue and net income from the entities acquired and included in the consolidated statement of comprehensive income of FibraHotel, as well as pro forma revenue and net income as if the hotels had been acquired on January 1 of the respective year.

	2016	2015	2014
Reported amount			
Revenue	$ 32,148	$ 3,291	$ 162,656
Net income	$ 11,389	$ 1,603	$ 51,025
Projected amount to 12 months (Unaudited)			
Revenue	$ 77,155	$ 39,492	$ 1,543,395
Net income	$ 27,334	$ 19,236	$ 286,954

Acquisition costs of the acquired hotels, including development cost, for the years ended December 31, 2016, 2015 and 2014 are $7,676, $15,766 and $73,689, respectively, which are recognized in the consolidated statement of comprehensive income.

FibraHotel has established growth and expansion plans, and based on its investment policies will evaluate future acquisition projects that will be submitted for approval by the Technical Committee of FibraHotel.

c. ***Significant events***

a. ***Disposition of credit lines***

During the year 2016, FibraHotel withdrew $543.5 million from the long-term line of credit with BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA (BBVA Bancomer); in addition to the $456.5 million which had already been withdrawn in 2015, the conditions are maintained at 1.5 percentage points above the 28-day TIIE rate.

Furthermore, FibraHotel has a long-term line of credit with Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte (Banorte), from which the withdrawls carried out between January and September 2016 were $604.1 million, which, together with the withdrawls from 2015 in the amount of $395.9 million, reached the limit of the line of credit of $1,000 million. This line of credit accrues interest at 91 day-TIIE rate plus 1.25 points. In November 2016, as stated in the line of credit agreement, the debt passed from revolving period to long-term period and as a result the interest rate changed to 91-day TIIE rate plus 2 points.

Finally FibraHotel negotiated a third line of credit with Banorte for an amount of $1,000 million, of which it withdrew $698.1 million; this line of credit accrues interest at the 91-day TIIE rate plus 1.3 during its revolving period. As of December 31, 2016, the undisposed balance is $301.9 million.

As a result of the above, in order to maintain relatively stable interest rate payments, FibraHotel entered into interest rate hedges to cover the withdrawls from the BBVA Bancomer and first Banorte lines of credit. For more information regarding the interest rate hedges please refer to Note 10.

b. ***Promise acquisition agreement of Hotel Fiesta Americana Hermosillo***

On April 29, 2016, FibraHotel entered into a purchase-sale contract subject to a term, conditions precedent and a purchase option for the hotel named “Fiesta Americana Hermosillo” pursuant to the following clauses: i) the effective duration of the contract will be until January 31, 2020, ii) the consideration will be that resulting from multiplying 10.06x average EBITDA of the hotel for the last three years, less the investment made in improvements and disbursements for leasing, subject to a lower limit of $80.5 million. On the same date, FibraHotel entered into a noncancelable lease until 2020 for $10 million, which amount the lessor undertakes to invest in property improvements. Also, FibraHotel agrees under the same terms to invest $75 million in such property. The sale of the property will be recognized once all the aforementioned clauses are fulfilled.

2. Application of new and revised International Financial Reporting Standards

a. ***Application of new and revised IFRS and interpretations that are mandatorily effective for the current year***

In the current year, FibraHotel has applied a number of amendments to IFRS and new Interpretation issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for accounting periods that begin on or after January 1, 2016.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment.

The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

i) When the intangible asset is expressed as a measure of revenue; or

ii) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently the management of FibraHotel uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. FibraHotel believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets.

b. ***New and revised IFRSs in issue but not yet effective***

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective. These IFRS allow earlier application, option that has not been elected by the Entity.

i) **Effective for annual periods beginning on or after 1 January 2017,** for which the Entity does not expect to have important effects on its consolidated financial information.

Amendments to IAS 12 Income Tax: Recognition of Deferred Tax Assets for Unrealized Losses

Provides requirements on the recognition and measurement of current or deferred tax liabilities or assets, and the amendments clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Amendments to IAS 7 Statements of Cash Flows: Provide disclosures.

With the purpose to provide disclosures that allow users of financial statements evaluate the changes in liabilities arising from financing activities, IASB requires that the changes in liabilities arising from financing activities are disclosed: (i) from financing cash flows; (ii) from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) in fair values; and (v) other changes.

ii) **Effective for annual periods beginning on or after 1 January 2018,** for which it is not practicable to provide a reasonably estimate of their effects on the consolidated financial statements until having performed a detailed analysis and review.

IFRS 9 ***Financial Instruments***

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial *Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).

- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- 1: Identify the contract(s) with a customer
- 2: Identify the performance obligations in the contract
- 3: Determine the transaction price
- 4: Allocate the transaction price to the performance obligations in the contract
- 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Therefore, income should be recognized when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added to deal with specific scenarios, and extensive disclosures are required. When IFRS 15 becomes effective, it will supersede the revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations.

iii) **Effective for annual periods beginning on or after 1 January 2019;** during 2017 the Entity will begin the analysis and evaluation of the effects of this standard, although given the nature of its operations it would not expect significant impacts.

IFRS 16, *Leases*

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A lessee would recognize 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.

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), a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term.

3. Significant accounting polices

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

b. Basis of preparation

The consolidated financial statements of FibraHotel have been prepared on the historical costs basis, except for derivative financial instruments and hotel properties, furniture and equipment, and properties under development, which were valued at fair value on 2012, at the date of contribution and acquisition, as explained in greater detail in the accounting policies below.

i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, FibraHotel takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the FibraHotel and the subsidiaries over which it exercises control. Control is achieved when FibraHotel:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

FibraHotel reassesses whether it controls an entity if the facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The subsidiary is consolidated from the date on which control is transferred to FibraHotel, and is no longer consolidated from the date that control is lost.

When necessary, adjustments to the financial statements of the subsidiary are made to align its accounting policies in accordance with the accounting policies of FibraHotel.

All balances and transactions between the subsidiary and FibraHotel have been eliminated in the consolidation.

Entity	Ownership percentage 2016, 2015 and 2014	Activity
Fibra Hotelera, S. C.	99.99%	Provision of advisory services and technical, legal, tax, commercial and administrative consulting related to the purchase and sale, management, leasing and subletting of all kinds of land, houses, buildings, warehouses, hotels, malls and commercial premises and offices.

FibraHotel reassessed whether it has maintained effective control over entities that provide administrative, personnel and operational services mentioned in Note 1, and based on its assessment, management concluded that in accordance with IFRS 10, it does not have effective control due to the following: (i) power, FibraHotel currently does not have the ability to direct the relevant activities, (ii) exposure or rights to variable returns; the trustors of the payroll entities have not received distributions, given that paying dividends is not the objective of the payroll entities. Furthermore administrative services fees are 5%, which is representative of market value for such services. This fee is not modified for the benefit of FibraHotel. The fee covers the expenses incurred by the payroll entities for their operation and is sufficient to ensure that the payroll entities do not incur losses. In addition to the above the assets of the payroll entities are of such a nature that they cannot be used in combination with FibraHotel for its operations.

d. ***Business combinations***

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of paid values of the assets transferred by FibraHotel, liabilities incurred by FibraHotel to the previous owners of the entity acquired and the equity issued by FibraHotel in exchange for control over the entity acquired at the acquisition date. 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 over the sum of the consideration transferred, the amount of any non-controlling interest in the entity acquired, and the fair value of the acquirer's previous held equity interest in the acquired (if any) over the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds 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 interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

e. ***Financial instruments***

Financial assets and financial liabilities are recognized when FibraHotel becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit.

f. ***Financial assets***

Financial assets are classified into the following categories: financial assets 'at fair value with changes through profit or loss' (FVTPL), investments 'available-for-sale' (AFS), 'financial assets loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition. All regular way purchases or sales of financial assets recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require the delivery of assets within the time frame established by regulation or convention in the marketplace.

<u>Financial assets loan and accounts receivable</u>

Accounts receivable to customers and other receivables which have fixed or determinable payments that are not listed in an active market are classified as loans and accounts receivable, which are measured at amortized cost, using the effective interest method, minus any impairment.

<u>Impairment of financial assets</u>

Financial assets, other than those financial assets at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the future cash flows from the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

<u>Derecognition of financial assets</u>

FibraHotel derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

g. Cash, cash equivalents and restricted cash

Cash and cash equivalents mainly consist of bank deposits in checking accounts and short-term investments. Cash is presented at fair value and cash equivalents are valued at fair value. FibraHotel considers as cash equivalents all highly liquid debt instruments acquired with a dated acquisition maturity of three months or less. Cash equivalents are represented mainly by government securities in which the resources are paid at maturity.

Restricted cash consists of cash corresponding to the fund for the investment in real estate, which will be used for the acquisition of real estate of the contribution portfolio and to the capital expenditures fund which will be used for repairs, major replacements and other capital expenditures.

h. Hotel properties, furniture and operating equipment

Properties, furniture and operating equipment of the hotel are recorded initially at their acquisition cost.

Hotel properties, furniture and operating equipment are presented at cost, less accumulated depreciation and any accumulated loss from impairment.

The properties which are being constructed for purposes of exploitation, supply or administration are recorded at cost, less any recognized loss for impairment. The cost includes professional fees and, in the case of qualifying assets, capitalized interest, based on the accounting policy of FibraHotel. These properties are classified into the appropriate categories of property, plant and equipment when they are completed for their intended use. The depreciation of these assets, as in other real properties, begins when the assets are ready for their intended use.

Depreciation is calculated using the straight-line method based on the remaining useful life of the asset, considering any residual values and considering components of each asset, as FibraHotel considers components more appropriate and consistent in relation to the methods used by the most representative entities of the sector. Based on technical studies, FibraHotel concluded that its buildings and their different components have different useful lives and will be subject to replacements in different periods, 10 years in the case of certain common areas and up to 55 years for metallic structures of the building. The residual value is 24% in the case of buildings; other fixed assets do not have significant residual values, as determined by independent appraisers.

Estimated useful lives, residual values and the depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

Depreciation rates of hotel properties, furniture and operating equipment as of December 31 2016, 2015 and 2014:

	%
Building finishes	10
Building improvements	10
Building components	7
Building civil construction	1
Furniture and equipment	10

The gain or loss derived from the sale or disposal of an item of the hotel's properties, furniture and operating equipment is calculated as the difference between the resources received from the sale and the carrying value of the asset, and is recognized in results.

i. Impairment in the value of long-lived assets

At the end of each reporting period, FibraHotel reviews the carrying values of its long-lived assets to determine whether there is any indication that such assets have suffered a loss from impairment. If there is any such indication, the recoverable amount of the asset is calculated to determine the amount of the loss from impairment (if any). When it is not possible to estimate the recoverable amount of an individual asset, FibraHotel estimates the recoverable amount of the cash generating unit to which such asset belongs. When a reasonable and consistent distribution basis can be identified, corporate assets are also assigned to the individual cash generating units; otherwise, they are assigned to the smallest group of cash generating units for which a reasonable and consistent distribution basis can be identified.

The recoverable amount is the higher of the fair value less the cost to sell the asset and its value in use. When evaluating the value in use, the estimated future cash flows related to the asset are discounted at present value using a discount rate before taxes which reflects the current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If it is estimated that the recoverable amount of an asset (or cash generating unit) is lower than its carrying value, the carrying value of the asset (or cash generating unit) is reduced to its recoverable amount. Losses from impairment are recognized immediately in results.

When a loss from impairment subsequently reverses, the carrying value of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the adjustment carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

j. Income taxes

As discussed in Note 1, FibraHotel is classified as and intends to maintain its classification as a FIBRA for income tax purposes; accordingly, it does not recognize a provision for income taxes, except for its subsidiary Fibra Hotelera, S. C., which is subject to the payment of regular Income Tax ("ISR"). See Note 11.

k. ***Provisions***

Provisions are recognized when FibraHotel has a present obligation (legal or implied) as a result of a past event, it is probable that FibraHotel will be required to liquidate the obligation and it can be reliably estimate that the amount of the obligation.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

l. ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

- FibraHotel as lessor

  Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

m. ***Foreign currency***

Transactions performed in foreign currency are recorded at the exchange rate in effect on the date each transaction took place. Monetary assets and liabilities denominated in foreign currency are valued in Mexican pesos at the exchange rate in effect at the date of the financial statements. Exchange rate fluctuations are recorded in results.

n. ***Financial liabilities and equity instruments***

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of FibraHotel after deducting all of its liabilities. Equity instruments are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Other financial liabilities

Other financial liabilities (including ebt and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

FibraHotel derecognizes financial liabilities when, and only when, the FibraHotel's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

o. Derivative financial instruments

FibraHotel enters into derivative financial instruments to manage its exposure to interest rates, including *cap spread* contracts. Further details of derivative financial instruments are disclosed in Note 12b.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

p. Hedge accounting

FibraHotel designates certain hedging instruments, which include cash flows hedge derivatives.

At the inception of the hedge relationship, FibraHotel documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, FibraHotel documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 12b sets out details of the fair values of the derivative instruments used for hedging purposes.

q. Revenue recognition

FibraHotel recognizes its revenues as follows:

i. The revenues are obtained from the operation of the hotels, and include rentals for guest rooms, food and beverages and other revenues, which are recognized as such hotel services are rendered.

ii. The policy of FibraHotel for recognition of revenues from operating leases is described in Note 3.l.

r. Classification of costs and expenses

The costs and expenses presented in the consolidated statement of comprehensive income were classified on their nature and function.

s. Statement of cash flows

FibraHotel presents its statement of cash flows using the indirect method. Interest received is classified as an investing cash flow, interest paid, distributions and dividends are classified as cash flows from financing activities.

t. ***Net income per weighted average CBFI***

Net income per weighted average CBFI with economic rights is determined by dividing consolidated net income by the weighted average number of outstanding CBFIs with economic rights, during the period. Net income from weighted average CBFIs with economic rights as of December 31, 2016, 2015 and 2014 was calculated subtracting 499,401,766 of outstanding CBFIs, from 5,128,205 CBFIs of 2016, 2015 and 2014, related to the contribution portfolio under development, which are not entitled to receive economic rights until the construction of the hotels has concluded and the hotels are opened to the public (see Note 14).

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the FibraHotel's accounting policies, which are described in Note 3, the FibraHotel's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical judgments in applying accounting policies***

<u>Business combinations</u>

Management uses its professional judgment to determine whether the acquisition of a property or portfolio of properties represents a business combination or an asset acquisition. Management specifically considers the following criteria:

i. Number of properties (land and building) acquired.

ii. The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the acquiree (e.g., maintenance, cleaning, security, bookkeeping, other property services, etc.).

iii. Whether the acquiree has allocated its own staff to manage the property and/or to deploy any processes (including all relevant administration such as invoicing, cash collection, provision of management information to the entity's owners and tenant information).

This determination can have a significant effect on the manner in which acquired assets and liabilities are recognized in financial information, both as of the acquisition date and subsequent thereto. Transactions that occurred during the periods presented in the accompanying consolidated financial statements are determined to be business acquisition and presented in property, plant and equipment of the hotel.

<u>Hotel classification (investment/asset ownership)</u>

Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows independently of other assets held by FibraHotel. This distinguishes an investment property from an owner-occupied property.

FibraHotel is the owner of the property and manages the services provided to the hotel guests by holding operating and leasing contracts; if the services provided to the guests are significant, it is not classified as an investment property but property of FibraHotel. A hotel managed by the owner is an occupied property, rather than an investment property.

It can be difficult to determine whether the services provided are significant enough that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under an operating agreement. The owner's position could be, in essence, a passive investor or the owner may simply have outsourced day to day functions while retaining significant exposure to variations in cash flows from the hotel operations.

Management uses its professional judgment to classify the contributed and acquired hotels as hotel property, plant and equipment, given that each hotel is used in its normal course of business and is, therefore, not considered as an investment property.

Lease classification

As explained in Note 3.1, leases are classified based on the extent to which the risks and rewards inherent to the ownership of the asset under lease are transferred to FibraHotel or the tenant, depending on the substance, rather than the legal form, of the lease. Based on its evaluation of contractual terms and conditions, FibraHotel has concluded that it essentially assumes all the significant risks and rewards inherent to the hotels under lease and therefore classifies the respective lease agreements as operating leases.

b. ***Key sources of estimation uncertainty***

Estimated useful and residual lives of fixed assets

Taking into consideration the opinion of internal experts from its development area, FibraHotel evaluates the useful lives and residual values of assets at the end of each reporting period based on its operating experience, the characteristics of its assets and their operation at date of the assessment. Any changes in estimates are recognized prospectively, within accumulated depreciation in the consolidated statement of financial position and depreciation expense in the consolidated statement of comprehensive income.

Allowance for doubtful accounts

FibraHotel has not recognized an allowance for doubtful accounts because credit ratings of its customers have not significantly changed and outstanding amounts are deemed to be recoverable. FibraHotel does not hold any collateral or other credit improvements with regard to these balances; likewise, it does not have the legal right to offset these amounts against its debts with the counterparty.

Fair value measurements and valuation processes

Some of the assets and liabilities of FibraHotel are measured at fair value in the consolidated financial statements.

In estimating the fair value of an asset or a liability, FibraHotel uses observable market data when they are available. When level 1 data are not available, FibraHotel hires a qualified appraiser to conduct an independent valuation. Management works closely with the independent qualified appraiser to establish the valuation techniques and appropriate input data for the model.

Information about the valuation techniques and inputs used in determining the fair value of individual assets and liabilities are disclosed in Note 9.

5. Cash, cash equivalents and restricted cash

	2016	2015	2014
Cash and bank deposits	$ 207,726	$ 170,843	$ 123,721
Restricted cash:			
Real property investment fund (i)	184,809	168,445	1,926,518
Capital expenditure reserve fund (ii)	56,294	37,537	41,666
	$ 448,829	$ 376,825	$ 2,091,905

Restricted cash

(i) Consists of a fund for the acquisition of the real properties and investment in the development portfolio. As with cash equivalents, the restricted cash is invested in government securities.

(ii) Represents amounts held in the capital expenditure reserve fund, which are restricted for the purpose of funding repairs, major replacements and other related capital expenditures. A total of up to 5% of revenues from the hotels is deposited in this fund. As in the case of cash equivalents, this restricted cash is invested in government securities.

6. Trade accounts receivable and other receivables

	2016	2015	2014
Clients	$ 126,774	$ 101,639	$ 111,862
Travel agencies	70,568	49,310	42,575
Credit cards	18,749	13,305	6,363
Other	20,784	38,545	2,927
	236,875	202,799	163,727
Lease receivables from: Grupo Posadas, S. A. B. de C. V. (formerly Hoteles y Villas Posadas, S. A. de C. V.)	5,810	5,113	5,447
	$ 242,685	$ 207,912	$ 169,174

Accounts receivable aging

FibraHotel currently has monthly collection levels that reflect its monthly billing; similarly, commercial and negotiating practices allow it to keep the majority of accounts receivable aging at less than 90 days. The accounts receivable subject to legal proceedings are immaterial, for which reason they do not merit the creation of an allowance for doubtful accounts.

	2016	2015	2014
60-90 days	$ 11,768	$ 9,871	$ 10,086
More than 90-120 days	30,372	28,136	21,241
Total	$ 42,140	$ 38,007	$ 31,327
Average aging (days)	84	78	40

7. Hotel properties, furniture and operating equipment

	2016	2015	2014
Land	$ 1,566,756	$ 1,252,162	$ 1,176,161
Building	7,487,919	5,701,739	5,015,764
Hotel furniture and operating equipment	1,708,630	1,078,859	816,586
	10,763,305	8,032,760	7,008,511
Less - Accumulated depreciation	(793,282)	(497,099)	(283,437)
	$ 9,970,023	$ 7,535,661	$ 6,725,074

Cost	Land	Building	Hotel furniture and operating equipment	Total
Balances as of January 1, 2014	$ 827,570	$ 3,532,018	$ 498,326	$ 4,857,914
Acquisitions:				
Contribution Portfolio	28,462	96,538	-	125,000
Acquisitions and transfer of properties under development (1)	320,129	1,387,208	321,061	2,028,398
Disposals	-	-	(2,801)	(2,801)
Balances as of December 31, 2014	1,176,161	5,015,764	816,586	7,008,511
Acquisitions:				
Acquisitions and transfer of properties under development (1)	76,001	685,975	262,273	1,024,249
Balances as of December 31, 2015	1,252,162	5,701,739	1,078,859	8,032,760
Acquisitions:				
Acquisition (1)	34,376	70,047	473,424	577,847
Transfer of properties under development	280,218	1,716,133	157,399	2,153,750
Disposals			(1,052)	(1,052)
Balances as of December 31, 2016	$ 1,566,756	$ 7,487,919	$ 1,708,630	$10,763,305

Accumulated depreciation	Building	Hotel furniture and operating equipment	Total
Balances as of January 1, 2014	$ 65,858	$ 57,450	$ 123,308
Depreciation expense	84,110	78,820	162,930
Disposals	-	(2,801)	(2,801)
Balances as of December 31, 2014	149,968	133,469	283,437
Depreciation expense	108,550	105,232	213,782
Disposals	-	(120)	(120)
Balances as of December 31, 2015	258,518	238,581	497,099
Depreciation expense	140,337	156,593	296,930
Disposals		(747)	(747)
Balances as of December 31, 2016	$ 398,855	$ 394,427	$ 793,282

Some real properties of FibraHotel are pledged against the credit lines described in Note 10, which approximate carrying value is $3,575 million.

(1) Acquisitions include business combination, as described in Note 10

8. Properties under development

	2016	2015	2014
GICSA Project	$ 302,559	$ 186,306	$ -
Vía Vallejo Project	272,227	69,527	35,577
Fiesta Inn Los Mochis Project	141,464	39,672	10,114
Live Aqua San Miguel Allende Project	137,419	-	-
Cencali Project	108,767	103,010	21,761
Aloft Veracruz Project	102,125	34,397	-
Fiesta Americana Via 515 Project	100,871	50,378	-
Toreo Project	94,872	94,872	94,872
Fiesta Americana Tlalnepantla Project	87,756	-	-
Full Service Villa del Mar Project	36,838	-	-
Mixto Trébol Monterrey Project	-	640,390	292,303
Pabellón M Project	-	372,604	-
Torre Américas 1500 Guadalajara AC Project	-	243,517	136,337
AC Antea Project	-	190,039	28,833
Juriquilla Project	-	120,718	21,956
Fairfield Inn Cuautitlán Project	-	57,174	-
One Durango Project	-	53,639	-
Fairfield Inn Nogales Project	-	22,065	-
Hotel Toluca Project	-	8,228	8,200
Ciudad del Carmen Project	-	-	17,407
Fiesta Inn Lofts Ciudad del Carmen Project	-	-	47,927
Fairfield Inn Saltillo Project	-	-	27,794
Others	11,702	24,153	30,490
	$ 1,396,600	$ 2,310,689	$ 773,571

As a result of the public offering dated November 30, 2012, Grupo GDI made a contribution of four hotels, and received 9,697,897 CBFIs, equivalent to $179,411. As a result of negotiations, affiliates of Grupo GDI undertook the construction of these hotels. When they are open to the public, the CBFIs will obtain economic rights and FibraHotel will pay the difference between the value of the contribution and the total cost of each of the hotels.

The release of these CBFIs was carried out as follows: i) during 2013, Grupo GDI finished construction of the hotels One Guadalajara Tapatío and Real Inn Morelia, which were in the development portfolio; FibraHotel paid the remaining investment and 3,031,231 CBFIs were released; and ii) Camino Real Hotel & Suites Puebla opened in 2014, and FibraHotel paid the remaining investment as well as releases CBFIs totaling 1,538,461. As of December 31, 2016 there are 5,128,205 CBFIs without economic rights related to a project under development.

9. Suppliers and accrued expenses

	2016	2015	2014
Suppliers	$ 210,807	$ 165,125	$ 139,921
Accrued expenses	79,258	73,724	73,714
Other accounts payable, including interest payable of borrowings for $27,407, $2,017 y $ -	58,042	78,087	20,245
	$ 348,107	$ 316,936	$ 233,880

10. Debt

a. Long-term debt is as follows:

	2016	2015
Long-term line of credit with mortgage security executed with Banorte, accruing interest as of 31 December 31, 2016 at 2.00 percentage points above the 91-day TIIE rate and as of 31 December 31, 2015 at 1.25 percentage points above the 91-day TIIE rate.	$ 1,000,000	$ 395,933
Long-term line of credit with mortgage security executed with Banorte accruing interest at 1.30 percentage points above the 91-day TIIE rate.	698,067	-
Long-term line of credit with mortgage security executed with BBVA Bancomer accruing interest at 1.50 percentage points above the 28-day TIIE rate.	998,964	456,535
	2,697,031	852,468
Less – Current portion	(98,288)	(7,849)
Long-term debt	$ 2,598,743	$ 844,619

b. Maturities of long-term debt:

Year	Maturities
2018	$ 102,150
2019	195,977
2020	200,097
2021	306,790
More than 5 years	1,793,729
	$ 2,598,743

To maintain stability in the rates, FibraHotel entered into certain interest rate hedges to cover the credit lines with BBVA Bancomer and first Banorte line in accordance with the following assumptions:

Four instruments, contracted with BBVA Bancomer, covering $657.9 million of the credit lines with BBVA Bancomer in accordance with the following assumptions:

- If the TIIE is lower than 5.0%, FibraHotel pays the TIIE rate.
- If the TIIE is between 5.0% and 9.0%, FibraHotel exchanges the TIIE rate and pays a rate of 5.0%.
- If the TIIE is above 9.0%, FibraHotel exchanges the TIIE rate against a TIIE rate, less a rebate of 4.0%.

An instrument, contracted with Santander, covering $341.1 million of the credit line with BBVA Bancomer in accordance with the following assumptions:

- If the TIIE is lower than 5.0%, FibraHotel pays the TIIE rate.
- If the TIIE is between 5.0% and 7.0%, FibraHotel exchanges the TIIE rate and pays a rate of 5.0%.
- If the TIIE is above 7.0%, FibraHotel exchanges the TIIE rate against a TIIE rate, less a rebate of 4.0%.

An instrument, contracted with Banorte, covering $1,000 million of the first credit line with Banorte in accordance with the following assumptions:

- *If the TIIE is lower than 4.5%, FibraHotel exchanges the TIIE rate and pays a rate of 5.0%.*
- If the TIIE is between 4.5% and 6.0%, FibraHotel pays the TIIE rate.
- If the TIIE is above 6.0%, FibraHotel exchanges the TIIE rate and pays a rate of 6.0%.

With Respect to the credit line with BBVA Bancomer and Banorte, FibraHotel must comply with covenants. As of December31, 2016, FibraHotel was in compliance with such covenants.

11. Income taxes

In order to maintain its status as a FIBRA, per requirements of SAT, in conformity with Articles 187 and 188 of the Income Tax Law (LISR), FibraHotel must annually distribute at least 95% of its taxable income to the holders of the CBFIs.

Fibra Hotelera, S. C. is subject to income tax ("ISR" for its acronyms in Spanish), the rate of current income is 30%.

a. Income taxes expense are as follows:

	2016	2015	2014
ISR:			
Current tax	$ 1,030	$ 2,944	$ 4,545
Deferred tax	757	(60)	(1,803)
	$ 1,787	$ 2,884	$ 2,742

b. At December 31, 2016, 2015 and 2014 the deferred income tax asset is composed solely of temporary differences resulting from accrued expenses of $3,298, $4,055 and $3,995, respectively.

12. Financial instruments

Equity management

FibraHotel manages its equity to ensure its ability to continue as a going concern, while maximizing the net worth of its trustors and distributions to the trustors by optimizing its use of debt and equity. FibraHotel's overall strategy remains unchanged from 2015 and 2014.

The equity of FibraHotel is primarily composed by the net worth of its trustors. Equity management objectives include ensuring the availability of operating funds to maintain the consistency and sustainability of distributions paid to trustors, while funding the required capital expenditure requirements and providing the resources needed to acquire and develop new properties.

FibraHotel can acquire hotels subject to existing financial mortgages or other encumbrances; similarly, it can acquire new debt or refinance existing debt to acquire hotels, albeit subject to compliance with leverage policies. Under certain circumstances, it could have the obligation to pay distributions in excess of the cash available for this purpose; if necessary, it can utilize the resources generated by organizing future debt and equity offerings, selling assets or obtaining loans to make certain distributions. The debt service related to this financing or indebtedness takes priority over any distributions related to the CBFIs.

- Debt index

The debt index as of December 31, 2016 is a follows:

	2016
Debt (i)	$ 2,724,438
Total assets	$ 12,430,038
Index of debt to total assets	22%

(i) Debt is defined as long and short-term loans (excluding derivatives), as described in Note 10.

Please note that the FibraHotel trust contract stipulates that the leverage level cannot exceed 40%; however, the new regulation for FIBRAS establishes that it cannot exceed 50%.

- Debt hedge index

-

As of December 31, 2016, the debt service coverage ratio is 1.68x. The commitments relate to:

- Debt service of $390 million
- Estimated capital expenditures of $265 million
- Estimated non-discretionary expenditures of $287 million

- Categories of financial instruments

	2016	2015	2014
Financial assets:			
Cash, cash equivalents and restricted cash	$ 448,829	$ 376,825	$ 2,091,905
Trade accounts receivable and other receivables	$ 242,685	$ 207,912	$ 169,174
Due from related parties	$ -	$ 3,190	$ 3,190
Derivative financial instrument	$ 120,887	$ 11,441	$ -
Financial liabilities:			
Amortized cost	$ 2,924,622	$ 1,083,601	$ 227,748

- Financial risk management objectives

Financial risk management is intended to manage financial expectations, while generating results of operations and cash flows to improve the financial position of FibraHotel and ensure its ability to make distributions to the holders of the CBFIs and fulfill any future debt obligations.

The Technical Committee of FibraHotel is responsible for advising and instructing the trustee with regard to the sale or cancellation of the CBFIs, analyzing and improving potential investments, sales and acquisitions, providing business services, coordinating access to national financial markets, as well as monitoring and managing the financial risks derived from the operations of FibraHotel through internal risk reports which provide an analysis of the level and magnitude of FibraHotel's risk exposure. These risks include the market risk (including exchange rate and interest rate risks), credit risk and liquidity risk.

- Market risk

The activities of FibraHotel expose it mainly to financial risks of interest rate changes. FibraHotel subscribes a variety of financial derivatives to handle this exposure to exchange risk and interest rate risk, including interest rate cap spreads to mitigate the risk of interest rate increases.

Exposures to market risk are valued using the Value at Risk (VaR), supplemented by a sensitivity analysis.

There have been no changes in the exposure of FibraHotel to market risks or the way in which these risks are managed and valued.

a) Foreign currency risk management

As FibraHotel performs transactions denominated in U.S. dollars ("U.S. dollar"), it is exposed to exchange rate fluctuations involving the Mexican peso and the U.S. dollar.

i. As of December 31, the foreign currency monetary position is as follows:

	2016	2015	2014
Thousands of U.S. dollars:			
Monetary assets	$ 2,508	$ 1,561	1,759
Monetary liabilities	(574)	(238)	(135)
Long position	1,934	1,323	1,624
Equivalent in Mexican pesos	$ 39,964	$ 22,764	$ 23,929

ii. Mexican peso exchange rates in effect at the date of the consolidates statement of financial position and at the date of issuance of these consolidates financial statements were as follows:

	December 31, 2016	December 31, 2015	December 31, 2014	March 31, 2017
U.S. dollar	$ 20.6640	$ 17.2065	$ 14.7348	$ 18.7079

- Foreign currency sensitivity analysis

Management considers that its exchange rate risk is not significant, given the amount of its long position in U.S. dollars.

If the exchange rate had increased or decreased by $1 peso per U.S. dollar and all other variables had remained constant, the result of the year and net worth of FibraHotel for the year ended December 31, 2016, 2015 and 2014 would have decreased/increased by approximately $1,934, $1,323 and $1,624, respectively.

iii. Interest rate risk management– Derivative financial instrument

FibraHotel is exposed to interest rate risk because it borrows funds at floating interest rates. The risk is managed by the FibraHotel by *cap and or cap spread* interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied. Detail of the derivative financial instruments is as follows:

Derivative financial instruments designed as interest rate hedge

Current contract	Bank	Maximum benefit %	Date of holding	Due date	Notional value December 31, 2016	Fair value December 31, 2016
Cap Spread	Bancomer, S.A.	4	18/nov/15	30/oct/20	$ 180,000	$ 10,025
Cap Spread	Bancomer, S.A.	4	16/dic/15	30/nov/20	153,400	8,703
Cap Spread	Bancomer, S.A.	4	27/ene/16	31/dic/20	202,400	11,712
Cap Spread	Santander, S.A.	4	11/mar/16	1/mar/21	341,067	14,182
Cap Spread	Bancomer, S.A.	4	1/dic/15	30/nov/20	123,333	6,996
Collar	Banorte, S.A.	6	15/sep/16	20/nov/21	1,000,000	69,269
						$ 120,887

Based on the aforementioned financial derivatives, the debt hedged as of December 31, 2016 is 74%.

- Interest rate sensitivity analysis – Derivative financial instruments

The following sensitivity analyses have been determined based on the exposure to interest rates both for the derivatives and non-derivatives at the end of the reporting period. For variable rate liabilities, an analysis is prepared by assuming that the amount of the liability in effect at the end of the reporting period has been the liability in effect for the entire year. A sensitivity analysis was performed, taking into account the following interest rate scenarios (28 and 91 day TIIE): +100 basis points, +25 basis points, -25 basis points, -100 basis points, using a confidence level of between 95% and 99% for a time horizon of one day, the results of these effects as of December 31, 2016 are as follow:

Scenarios	28-day TIIE	91-day TIIE		Impact
Less 100 basis points	5.11%	5.19%	$	(15,000)
Less 25 basis points	5.86%	5.94%		(2,362)
As of December 31, 2016	6.11%	6.19%		-
Plus 25 basis points	6.36%	6.44%		1,745
Plus 100 basis points	7.11%	7.19%		7,336

According to the results of the sensitivity analysis based on the scenarios and the characteristics and structure of the derivatives positions analyzed, we conclude that the market risks to which the entity's swaps position is exposed are principally: a) 28 day TIIE rate; b) TIIE-IRS Curve and c) the correlation between the risk factors. The greater the correlation, the greater the volatility of the risk factors portfolio.

- Credit risk management

Credit risk refers to the situation in which counterparty defaults on its contractual obligations, thereby generating a financial loss for FibraHotel. Virtually all the revenues generated by FibraHotel are derived from the provision of hotel services. Consequently, its performance depends on its ability to collect revenues from hotel services from guests, as well as the capacity of the latter to make the required payments. FibraHotel's income and funds available for distribution would be adversely affected if a significant number of guests or its main leaseholders defaulted on their rental payments, closed their businesses or filed bankruptcy proceedings.

FibraHotel has adopted the policy of negotiating hotel leases with solvent counterparties and obtaining sufficient guarantees, when necessary, as a means of mitigating the risk of losses generated by nonpayment.

Credit risk is generated by the balances of cash and cash equivalents, trade accounts receivable and other receivables included in the consolidated statement of financial position.

- Liquidity risk management

Liquidity risk represents the risk whereby FibraHotel faces certain difficulties when fulfilling obligations associated with financial liabilities which must be settled in cash or through the delivery of another financial asset. As FibraHotel is responsible for liquidity risk management, it has established a suitable liquidity risk management structure to manage its short, medium and long-term financing, while satisfying liquidity management requirements. FibraHotel manages its liquidity risk by maintaining adequate reserves, monitoring projected and actual revenue cash flows and reconciling the maturity profiles of financial assets and liabilities. The Treasury department monitors liability maturities so as to program the respective payments.

The following table details the remaining contractual maturities of FibraHotel for its financial liabilities with reimbursement periods established. The table has been designed based on the undiscounted projected cash flows of the financial liabilities based on the date that FibraHotel must generate/obtain the resources. The table includes the projected interest cash flows, taking into account the debt as of December 31 each year, as well as capital disbursements from the financial debt included in the statement of financial position. The variable interest rate financial debt is subject to change; if the changes in variable interest rates differ from those interest rate estimates determined at the end of the reporting period, the values below will differ:

	Less than 1 year	1 and 3 years	3 + years	Total
December 31, 2016				
Debt	$ 98,288	$ 298,127	$ 2,300,616	$ $ 2,697,031
Suppliers and accrued expenses	227,591	-	-	227,591
Projected variable interest of debt, net of derivative financial instrument.	194,130	540,669	711,877	1,446,667
Total	$ 520,009	$ 838,796	$ 3,012,493	$ 4,371,289
December 31, 2015				
Debt	$ 7,849	$ 253,429	$ 591,190	$ 852,468
Suppliers and accrued expenses	238,982	-	-	238,982
Projected variable interest of debt, net of derivative financial instrument.	46,154	92,694	177,540	316,388
Total	292,985	346,123	768,730	1,407,838
December 31, 2014				
Suppliers and accrued expenses	$ 227,748	$ -	$ -	$ 227,748

- Fair value of financial instruments

Fair value of financial instruments recorded at amortized cost.
Except for l*ong-term debt*, carrying value of trade accounts receivable and other receivables, due from related parties, suppliers and accrued expenses are short-term in nature and, in certain cases, accrue interest at rates linked to market indicators. FibraHotel therefore considers that the carrying value of these financial assets and liabilities recognized at amortized cost approximates their fair values. The fair value of long-term debt is show as follows:

Financial instruments	December 31, 2016	December 31, 2015	December 31, 2014	Fair value hierarchy	techniques and key inputs
Debt	$ 1,761,176	$ 616,308	$ -	Level 3	Market value. The fair value of debt is measured with unobservable information

Fair value of financial instruments carried at FVTPL on a recurring basis are as follows

Investments in government securities	**$ 241,103**	**$ 205,982**	**$ 1,968,184**	**Level 1**	**Market value. The fair value of investments is measured by quoted prices (unadjusted) in active markets for identical instruments.**
	Fair value at		**Valuation**		
				-	-

<u>Derivatives designates as hedge instruments</u>

Financial assets	**Fair value** 31/12/16	31/12/15	31/12/14	**Fair value hierarchy**	**Techniques and key inputs**
Derivative financial instruments designed as hedge – Cap Spread	$ 120,887	$ 11,441	$ -	Nivel 2	Discounted future cash flows are calculated on the basis of term interest rates (starting with the observable yield curves at the end of the period in question) and contractual interest rates, discounted at a rate which reflects the credit risk of various counterparties.

- <u>Fair value of land and buildings acquired on business combination</u>

  Land and buildings that FibraHotel acquired on business combination are recorded at fair value at the acquisition date, in accordance with IFRS 3.

  The fair value of the land and buildings is determined based on the income approach. There has been no change in valuation technique during the period.

The fair value of the land and buildings of FibraHotel and the information about the hierarchy of fair value as of December 31, is as follows:

	2016 Level 2 Fair value total	**2015 Level 2 Fair value total**	**2014 Level 2 Fair value total**
Hotels of Acquisition Portfolio that include:			
– Land	$ 34,376	$ 38,660	$ 320,129
– Buildings	203,534	129,483	1,269,354
	$ 237,910	$ 168,143	$ 1,589,483

Valuation techniques and assumptions applied for purposes of determining the fair value

- The fair value of financial assets and financial liabilities with standard terms and traded in active liquid markets are determined with reference to quoted market prices (including unlisted redeemable notes, bills of exchange, perpetual and government bonds).

- The fair value of other financial assets and liabilities (excluding those described above) are determined in accordance with pricing models generally accepted, based on the analysis of discounted cash flows using prices from observable current transactions in the market and quotations for similar instruments. In particular, the fair value of long-term debt, which is calculated only for the purpose of this disclosure and not for the accounting of the debt, which is considered measurement Level 3, as described below, it was determined using a model of discounted cash flows, using current rates estimates based on observable market TIIE curves and credit spread estimated using observable credit similar entities, which is adjusted as needed.

Financial instruments measured at fair value after initial recognition are grouped in three levels, based on the degree to which the fair value is observable:

- Level 1 valuations at fair value are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 valuations at fair value are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 valuations at fair value are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable indicators).

13. Transactions and balances with related parties

a. Commercial transactions:

During the year, FibraHotel carried out the following transactions with related parties:

	2016	2015	2014
Administradora Fibra Hotelera , S. A. de C. V.			
Management fee	$ 104,673	$ 103,669	$ 96,730
Group A:			
Administrative services	$ 51,572	$ 41,465	$ 40,646

The Group A is comprised of Prestación de Servicios Hoteleros GG, S. A. de C. V., Soluciones y Administración Estrátegica, S. A. de C. V., Fibra Hotelera, S. C., Solución de Recursos Humanos, S. A. de C. V., Administradora GDI, S. A de C. V., and Control y Desarrollo Administrativo, S. A. de C. V. FibraHotel pays an annual fee for the administrative services provision corresponding to personnel employee benefits and taxes, of 5%. The above transaction is documented through renewable five-year agreements.

b. Due from related parties:

	2016	2015	2014
Controladora Cabi FHM	$ -	$ 2,174	$ 2,174
Alterturismo, S. de R. L. de C. V.	-	734	734
Grupo Innovador Turístico y de Servicios, S. de R. L. de C. V.	-	233	233
Grupo Empresarial Hermosillo	-	49	49
	$ -	$ 3,190	$ 3,190

14. Trustees' equity

Contributions

a. Equity contributions of trustors at par value are as follows:

Initial capital contribution	Issuance of CBFIs	Total
$ 15	$ 10,009,645	$ 10,009,660

On February 5, 2016 the initial contributed net worth of FibraHotel has been paid in full.

b. The net worth of FibraHotel is represented by an initial contribution of $15, the Contribution Portfolio, the Contribution Portfolio under Development and the resources generated by issuing the CBFIs in the IPO, as discussed below:

c. On May 30, 2013, FibraHotel held a subsequent offering of CBFIs in the Bolsa Mexicana de Valores ("BMV") and in other international markets. The total amount of the offering was $4,877,725, offering 195,000,000 CBFIs, including overallotment at $24.95. The Control Trust of FibraHotel participated in the subscription of 2,000,000 CBFIs.

As of December 31, 2016, 2015 and 2014, there were 499,401,766 CBFIs outstanding.

Distributions-

a. As of December 2016, 2015 and 2014, the Technical Committee of FibraHotel has approved and paid distributions of the tax income accounts, to the CBFIs owners as follows:

Date of distribution approval	Distribution by CBFI (Pesos)	Distributions from equity redemption	Distributions of taxable income	Total distributions
February 16, 2016	$ 0.2380	$ 117,659	$ -	$ 117,659
April 19, 2016	0.2003	89,757	9,224	98,981
July 19, 2016	0.2408	119,008	-	119,008
October 18, 2016	0.2726	96,049	38,695	134,744
Total December 2016		$ 422,473	$ 47,919	$ 470,392

Date of distribution approval	Distribution by CBFI (Pesos)	Distributions from equity redemption	Distributions of taxable income	Total distributions
February 19, 2015	$ 0.2250	$ 111,216	$ -	$ 111,216
April 21, 2015	0.2074	85,452	17,052	102,504
July 21, 2015	0.2204	63,014	45,926	108,940
October 20, 2015	0.2153	75,552	30,877	106,429
Total December 2015		$ 335,234	$ 93,855	$ 429,089
February 17, 2014	$ 0.2134	$ 105,001	$ -	$ 105,001
April 29, 2014	0.2001	98,590	-	98,590
July 22, 2014	0.2313	47,421	66,886	114,307
October 21, 2014	0.2025	100,104	-	100,104
Total December 2014		$ 351,116	$ 66,886	$ 418,002

b. The distribution through CBFIs is the result of dividing earnings before interest, taxes, depreciation and amortization (EBITDA in English), less the CAPEX reserve and extraordinary expenses, by the number of CBFIs outstanding with economic rights. As of December 31, 2016, 2015 and 2014 the CBFIs without economic rights were 5,128,205.

15. Minimum lease payments

The aggregate annual future minimum lease payments expected to be received under existing operating leases are as follows:

Period	Fiesta Inn	Live Aqua Boutique
Less than 1 year	$ 53,487	$ 19,443
1 to 5 years	267,435	77,772
	$ 320,922	$ 97,215

The lease contracts have remaining terms ranging from one to five years.

The aforementioned minimum lease payments do not include amounts expected to be received with respect to contingent rentals, which is mainly comprised of rent increases based on inflation and variable income, if any. Additionally, the payments disclosed only consider the compulsory lease term and do not consider any renewal periods, related to minimum future rentals.

16. Business segment information

a. Segments financial information

Segment information reported externally was analyzed on the basis of the types of room revenues, food and beverage income, operating expenses for the different types of hotel brands that comprise the investment portfolio of FibraHotel. However, the information analyzed by management who makes operating decisions of the Trust for purposes of allocating resources and assessing segment performance is focused more specifically on the category of customer for each type of portfolio. The main categories of customers for these goods are services provided and brand. FibraHotel segments to report according to IFRS 8 are therefore the following:

Limited service

Limited service hotels offer a service, as its name implies, of convenience, which traditionally has no bars, restaurants or conference or meeting rooms, nor does it offer additional services, but in recent years the trend has been that this class hotels offer a mix of services, including business centers, gyms and swimming pools, with a limited selection of food (breakfast included) and limited spaces boardrooms.

Select service

These hotels provide certain additional services to limited service hotels, including the offer of food and drink, restaurants, bars and room service 24 hours. Rooms for social and business events, as well as additional services within the room.

Extended stay

Hotels in this segment are characterized by a suite format in studio setups with one or two bedrooms, almost always with a full kitchen and a dining space and workspace. Among the services provided by these hotels are public areas similar to a hotel of select services without meeting rooms.

Full service

These hotels have a robust supply of food and beverages with several centers of consumption (restaurants and bars), boardrooms and conference rooms for business and social events as well as in certain cases additional services related to complete service hotels such as spas, room service, valet parking, concierge, bell boys and more extensive public areas.

b. **Income and segment results**

An analysis of income and results of the Trust of continuing operations is presented by reported segment:

	2016					
	Select service	Limited service	Extended stay	Full service	Corporate	Total
Revenue for:						
Rooms	$ 1,252,953	$ 413,211	$ 67,985	$ 323,108	$ -	$ 2,057,257
Food and beverages	360,156	-	-	108,241	-	468,397
Real Estate Rentals	73,436	-	-	6,396	-	79,832
Others	-	-	-	-	29,519	29,519
	1,686,545	413,211	67,985	437,745	29,519	2,635,005
Costs and expenses:						
Rooms	234,077	93,643	11,961	62,995	-	402,676
Food and beverages	205,384	2,846	-	77,583	-	285,813
General and administrative	704,060	192,021	7,564	199,438	-	1,103,083
Corporate	-	-	-	-	290,133	290,133
Depreciation	-	-	-	-	296,930	296,930
	1,143,521	288,510	19,525	340,016	587,063	2,378,635
					Financial expenses net and others	(40,693)
					Income before income taxes	$ 215,677

	2015					
	Select service	Limited service	Extended stay	Full service	Corporate	Total
Revenue for:						
Rooms	$ 1,015,905	$ 309,166	$ 48,600	$ 167,649	$ -	$ 1,541,320
Food and beverages	298,442	-	-	69,083	-	367,525
Real Estate Rentals	74,251	-	-	1,142	-	75,393
Others	-	-	-	-	23,699	23,699
	1,388,598	309,166	48,600	237,874	23,699	2,007,937
Costs and expenses:						
Rooms	181,793	65,309	7,718	33,886	-	288,706
Food and beverages	171,081	-	-	44,192	-	215,273
General and administrative	572,623	142,612	1,509	117,034	-	833,778
Corporate	-	-	-	-	246,694	246,694
Depreciation	-	-	-	-	213,782	213,782
	925,497	207,921	9,227	195,112	460,476	1,798,233
					Financial expenses net and others	29,756
					Income before income taxes	$ 239,460

	2014					
	Select service	Limited service	Extended stay	Full service	Corporate	Total
Revenue for:						
Rooms	$ 839,237	$ 210,495	$ 14,565	$ 97,728	$ -	$ 1,162,025
Food and beverages	245,726	-	-	43,936	-	289,662
Real Estate Rentals	62,825	3,777	-	2,195	-	68,797
Others	-	-	-	-	10,280	10,280
	1,147,788	214,272	14,565	143,859	10,280	1,530,764
Costs and expenses:						
Rooms	139,077	43,245	1,907	14,358	-	198,587
Food and beverages	138,670	1,641	-	24,355	-	164,666
General and administrative	483,199	93,635	-	65,830	-	642,664
Corporate	-	-	-	-	229,851	229,851
Depreciation	-	-	-	-	162,930	162,930
	760,946	138,521	1,907	104,543	392,781	1,398,698
					Financial expenses net and others	124,379
					Income before income taxes	$ 256,445

c. The main assets and liabilities by segment as of December 31, are as follows:

	2016					
	Select service	Limited service	Extended stay	full service	Others	Total
Hotel properties, furniture and operating equipment – Net	$ 1,772,760	$ 5,231,710	$ 415,481	$ 2,549,146	$ 926	$ 9,970,023
Properties under development	$ 145,507	$ 768,498	$ 94,872	$ 387,723	$ -	$ 1,396,600
Long-term liabilities (1)	$ -	$ -	$ -	$ -	$ 2,697,031	$ 2,697,031

	2015					
	Select service	Limited service	Extended stay	Full service	Others	Total
Hotel properties, furniture and operating equipment – Net	$ 1,343,777	$ 5,030,418	$ 369,317	$ 791,306	$ 843	$ 7,535,661
Properties under development	$ 253,596	$ 538,850	$ -	$ 1,496,927	$ 21,316	$ 2,310,689
Long-term liabilities (1)	$ -	$ -	$ -	$ -	$ 852,468	$ 852,468

	2014					
	Select service	Limited service	Extended stay	Full service	Others	Total
Hotel properties, furniture and operating equipment – Net	$ 946,500	$ 5,130,743	$ 125,000	$ 522,218	$ 613	$ 6,725,074
Properties under development	$ 57,950	$ 179,731	$ 47,927	$ 457,473	$ 30,490	$ 773,571

Debt was issued at the holding level, which cannot be allocated to a specific segment.

17. Commitments and contingencies

Except as noted previously, neither FibraHotel nor its assets are subject to any type of legal action, other than those stemming from its routine operations and activity.

18. Authorization to issue the consolidated financial statements

The consolidated financial statements were authorized for issue on March 31, 2017, by Lic. Edouard Boudrant Finance Director and Lic. Eduardo López, Managing Director of FibraHotel, consequently they do not reflect events after this date, and subject to the approval at the General Ordinary Trustors meeting which may be modify them.

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