

CONSOLIDATED FINANCIAL STATEMENTS

Fideicomiso Irrevocable No. F/1616 (Deutsche Bank Mexico, S. A.
Multiple Banking Institution, Trust Division) and Subsidiary
As of December 31, 2015 and 2014
(Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

Translation from Spanish language original

To Technical Committee:
Fideicomiso Irrevocable No. F/1616
(Deutsche Bank México, S.A., Multiple Banking Institution, Trust Division):

We have audited the accompanying consolidated financial statements of Fideicomiso Irrevocable No. F/1616 (Deutsche Bank México, S.A., Multiple Banking Institution, Trust Division) and subsidiary (the Trust) which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, the consolidated income statements, comprehensive income, changes in trustors' equity and cash flows for the years ended as of December 31, 2015 and 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.


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



OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fideicomiso Irrevocable No. F/1616 (Deutsche Bank México, S.A., Multiple Banking Institution, Trust Division) and subsidiary, as of December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

KPMG CARDENAS DOSAL, S. C.


Leandro Castillo Parada
Monterrey, Nuevo León, Mexico
March 30, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2015 and 2014
(Thousands of Mexican pesos)

	NOTES	2015	2014
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	\$ 796,751	1,106,691
Trade and other accounts receivable	6	164,043	76,667
Advance payments		30,692	6,213
Accounts receivable from related parties	11	97,253	37,520
Recoverable value-added tax		406,067	247,489
Recoverable taxes and other		8,086	8,917
Total current assets		1,502,892	1,483,497
Accounts receivable from related parties	11	24,968	16,600
Property, furniture and equipment, net	8	7,623,364	6,041,104
Deferred income taxes	13	–	322
Intangible assets and other assets	10	37,049	18,955
		\$ 9,188,273	7,560,478
LIABILITIES AND TRUSTOR'S EQUITY			
CURRENT LIABILITIES:			
Suppliers		\$ 131,707	53,301
Other payables		10,190	4,025
Taxes payable		18,473	13,105
Property acquisition liability	9	10,000	144,655
Accounts payable to related parties	11	45,209	67,343
Bank commissions	16	8,662	10,701
Advances from clients		1,132	4,784
Total current liabilities		225,373	297,914
Bank commissions	16	–	4,600
Long-term accounts payable to related parties	11	–	2,044
Bank loans	16	69,397	66,029
Derivative financial instruments	15	5,257	893
Debt securities	16	1,847,852	–
Employee benefits	14	252	232
Deferred income tax	13	136	–
Total liabilities		2,148,267	371,712
Trustors' equity:			
Contributed capital	12	6,671,290	6,991,560
Executive share-based compensation reserve	11 d	51,870	33,370
Reserve for valuation effect of derivative financial instruments	15	(5,161)	(893)
Retained earnings	12	322,007	164,729
Total trustors' equity		7,040,006	7,188,766
		\$ 9,188,273	7,560,478

See accompanying notes to consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS

For the years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

	NOTES	2015	2014
Revenue from:			
Lodging		\$ 1,228,400	832,151
Property leases	11	81,376	52,122
Total revenue		1,309,776	884,273
Costs and expenses from hotel services:			
Lodging		315,467	217,276
Administrative		211,721	135,067
Advertising and promotion		76,265	41,033
Electricity		73,434	59,978
Maintenance		59,070	44,290
Royalties		77,781	56,347
Total costs and expenses from hotel services		813,738	553,991
Gross margin		496,038	330,282
Other costs and expenses (income):			
Property tax		8,723	5,695
Insurance		4,516	2,994
Advisor fee	11	50,434	26,429
Corporate administrative expenses		33,038	28,409
Depreciation and amortization	8 and 10	157,704	108,256
Executive share-based compensation	11 d	18,500	18,500
Costs from business acquisitions	3 m and 7	59,944	64,338
Other income, net		(5,893)	(2,172)
Total costs and expenses		326,966	252,449
Operating income		169,072	77,833
Interest expense, net		10,343	10,751
Foreign exchange loss, net		993	675
Financial expense		11,336	11,426
Income before income taxes		157,736	66,407
Deferred income taxes	13	458	(247)
Consolidated net income		\$ 157,278	66,654
Basic earnings per CBFIs *		0.36	0.15
Diluted earnings per CBFIs *		0.36	0.15
Weighted average of outstanding CBFIs	12	437,019,542	437,019,542

* Real Estate Fiduciary Stock Certificates

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2015 and 2014

(Thousands of Mexican pesos)

	NOTES	2015	2014
Net income		\$ 157,278	66,654
Net income			
Reserve for valuation effect of derivative financial instruments	15	(4,268)	(893)
Total comprehensive income		\$ 153,010	65,761

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN TRUSTORS' EQUITY

For the years ended December 31, 2015 and 2014

(Thousands of Mexican pesos)

	NOTES	CONTRIBUTED CAPITAL	EXECUTIVE SHARE-BASED COMPENSATION RESERVE	RESERVE FOR VALUATION EFFECT OF DERIVATIVE FINANCIAL INSTRUMENTS	RETAINED EARNINGS	TOTAL TRUSTORS' EQUITY
Balances as of December 31, 2013		\$ 4,457,967	14,870	–	104,992	4,577,829
Contributed capital	12	2,750,810	–	–	–	2,750,810
Reimbursements and distributions to holders of certificates	12	(217,217)	–	–	(6,917)	(224,134)
Equity-settled share-based compensation	11 d	–	18,500	–	–	18,500
Comprehensive income		–	–	(893)	66,654	65,761
Balance as of December 31, 2014		6,991,560	33,370	(893)	164,729	7,188,766
Reimbursements and distributions to holders of certificates	12	(320,270)	–	–	–	(320,270)
Equity-settled share-based compensation	11 d	–	18,500	–	–	18,500
Comprehensive income		–	–	(4,268)	157,278	153,010
Balance as of December 31, 2015		\$ 6,671,290	51,870	(5,161)	322,007	7,040,006

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014
(Thousands Mexican pesos)

	NOTES	2015	2014
OPERATING ACTIVITIES:			
Consolidated income before taxes		\$ 157,736	66,407
Adjustments:			
Depreciation and amortization	8 and 10	157,704	108,256
Debt interests		24,387	–
Interest income		(14,044)	–
Share-based compensation to executives	11 d	18,500	18,500
Operating activities		344,283	193,163
Increase in trade and other accounts receivable	6	(87,376)	(71,031)
Accounts receivable from related parties	11	(83,911)	45,949
Increase in prepaid expenses		(24,479)	(6,213)
Increase in recoverable value added tax		(157,747)	(104,668)
Increase in suppliers and other payables		80,919	45,747
Increase in taxes payable		5,368	13,105
Employee benefits	14	20	(15)
Net cash flows generated by operating activities		77,077	116,037
INVESTING ACTIVITIES:			
Acquisition of property, furniture and equipment	8	(1,857,404)	(1,984,037)
Acquisition of intangible assets	10	(18,748)	(18,955)
Loan to related parties		(8,368)	–
Interest income		14,044	–
Net cash flows used in investing activities		(1,870,476)	(2,002,992)
FINANCING ACTIVITIES:			
Loans received	16	600,000	1,000,000
Loans paid	16	(600,000)	(900,000)
Bank commissions and interest payments	16	(44,123)	(18,670)
Proceeds from debt issuance		1,875,350	–
Debt issuance costs		(27,498)	–
Contribution to trustors' equity	12	–	2,750,810
Distributions to holders of certificates	12	(320,270)	(224,134)
Net cash flows generated by financing activities		1,483,459	2,608,006
Cash and cash equivalents:			
Net (decrease) increase in cash and cash equivalents		(309,940)	721,051
Cash at the beginning of the period	5	1,106,691	385,640
Cash at the end of the period	5	\$ 796,751	1,106,691

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

1. COMPANY'S ACTIVITY –

Trust F/1616 (Deutsche Bank Mexico, S. A. Multiple Banking Institution, Trust Division) and Subsidiary ("Fibra INN" or the "Trust") was established on October 23, 2012, as a real estate trust by Asesor de Activos Prisma, S.A.P.I de C.V.(the "Trustor"), Deutsche Bank México, S.A., Multiple Banking Institution, Trust Division (the "Trustee"). The Trust started operations on March 12, 2013 and was created mainly to acquire and own real estate, with a view to leasing commercial properties earmarked for the hospitality industry and providing related services.

Fibra INN, as a real estate investment trust (Fideicomiso de Inversiones en Bienes Raices – "FIBRA"), meets the requirements to be treated as a transparent entity in Mexico in accordance with the Mexican Income Tax Law. Therefore, all proceeds from the Trust's operations are attributed to holders of its Real Estate Fiduciary Stock Certificates (Certificados Bursátiles Fiduciarios Inmobiliarios – "CBFIs") and the Trust F/1616 is not subject to income taxes in Mexico. In order to maintain its FIBRA status, the Tax Administration Service (Servicio de Administración Tributaria – "SAT") established, in Articles 223 and 224 of the Income Tax Law for the period of 2013, that the Trust must annually distribute at least 95 percent of its net tax result to CBFIs holders. In accordance with the new Income Tax Law 2014, the articles related to the tax requirements of a FIBRA are 187 and 188, which sustain the same characteristics as the previous law.

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

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

FOR THE DEVELOPMENT OF ITS OPERATION, FIBRA INN HAS ENTERED INTO THE FOLLOWING CONTRACTS WITH RELATED PARTIES:

- Advisory services on acquisition, management and development of assets with Asesor de Activos Prisma, S. A. P. I. de C. V. Management consulting services are permanent for all hotels that comprise the equity of the Trust, and are determined by the value of the related assets. In the General Holders Meeting held on October 17, 2014, a resolution to modify the percentage applied to the value of assets in determining the fees from advisory on management was reached, remaining a 0.75% over the gross value of real estate assets, adjusted by inflation. The advisory services on acquisition and development are performed once for all hotels acquired and developed, and are determined by the agreed purchase price or developed property, as applicable. Additionally, in the General Holders Meeting held on October 17, 2014 a resolution to eliminate the fee from advisory services on acquisition and development of assets was reached. This resolution will be applicable in respect of the assets whose acquisition is approved after October 17, 2014. The stated term for this contract is 10 years.
- Hotel management services contract with Gestor de Activos Prisma, S.A.P.I. de C.V. The hotel management services are permanent, for the corresponding hotels (some hotels contract with third-party hotel management services). The stated term of the contract is 10 years.
- Personal services contracts with Servicios Integrales Fibra INN, S.A.P.I. de C.V. and Impulsora Fibra INN, S.A.P.I. de C.V.
- Space rental contract with Operadora México Servicios y Restaurantes, S.A.P.I. de C.V. Spaces granted as leases are those used to provide other services different to lodging services. The term of this contract is 20 years.

As a result of the legislative changes to the new Income Tax Law in force beginning January 1, 2014, in compliance with the provisions of Articles 187 and 188, the Technical Committee of Fibra INN decided to implement the following:

- a) Hotel lodging services are recorded and invoiced directly by the Trust F/1616, which in turn is in charge of paying all lodging expenses.
- b) For services other than lodging, both for selected and limited services, and for full service hotels, which comprise the use of meeting rooms, coffee break services, telephone, laundry and dry-cleaning services, and snack bars, among others, Fibra INN leases real property directly from Operadora México, Servicios y Restaurantes, S.A.P.I. de C.V. ("Operadora México"). Accordingly, the Trust F/1616 recognizes revenues from rental, and the provision of all services other than lodging is transferred to Operadora México.
- c) For the specific case of full-service hotels, revenues from services other than lodging are recognized and invoiced by the Trust F/1765. This entity is in charge of paying direct inputs and expenses related to rendering such services, in addition to paying payroll and other expenses related to the staff required to render them. Therefore, Fibra INN receives revenues from leases based on a monthly fixed rental plus an equity component that varies between 10% and 25% of the revenues arising from the aforementioned services.

The purpose for the incorporation of the Trust F/1765 is the existence of a third entity to receive the amounts of revenue on which the percentage to determine the variable portion of the rent to be obtained from the different hotels, will be applied.

SIGNIFICANT EVENTS –

- 1. On September 9, 2014, the Trust entered into a line of credit of \$2,300,000 pesos to finance its property acquisition and development expansion plan. The institutions participating in the line of credit are: Banorte, Actinver, Banamex, BanRegio and Scotiabank. This bank debt is located in a cash credit line account that has a fiduciary and pledge collateral, with a term of 54 months and payable at maturity. The agreed interest rate is TIIE plus 2.5% for the first three years, plus two increases: an additional 0.25% during months 37 to 45 and a 0.5% additional increase during months 46 to 54. As of December 31, 2015 and 2014, the amount disposed amounted to \$600,000 and \$100,000, respectively. However, based on the resources obtained from the issuance of Fiduciary Trust Certificates on September 30, 2015 (see Notes 15 and 16), \$600,000 was paid in advance, resulting as an outstanding amount \$100,000 as of December 31, 2015.
- 2. On November 21, 2014, Fibra INN concluded the process of issuing additional CBFIs to existing holders, subscribing a total of 178,685,324 new CBFIs, at a price of \$15.85 for a total of \$2,832,162.
- 3. On September 30, 2015, Fibra INN issued Fiduciary Trust Certificates (CBFs) for \$1,875,350 under a program of up to \$5,000,000. This issuance will bear interest every 28 days at a variable rate equal to TIIE 28 plus 110 basis points, over a 6-year term and payment of principal upon maturity.
- 4. As described in Note 7, Fibra INN acquired 7 hotels during the year ended December 31, 2015. The 7 hotels were considered as a business acquisition (Note 7). The acquisition of these hotels, was carried out to consolidate the market positioning of the Trust in the states of Chihuahua, Jalisco, Sonora and Tamaulipas.
- 5. On November 2, 2015, Fibra INN's hotel Courtyard by Marriott in Saltillo, Coahuila started operations. Its development was announced in 2014 and \$205,878 was invested, which consists of the property construction, land investment, and expenses related to the acquisition.
- 6. On December 17, 2015, Fibra INN's hotel Fairfield Inn & Suites by Marriot in Coatzacoalcos, Veracruz started operations, whose development was announced in 2014. The total investment of this development amounted \$182,652, which is composed of the construction of the property, the land investment and expenses related to the acquisition.

2. AUTHORIZATION AND BASIS OF PRESENTATION –

AUTHORIZATION –

The accompanying consolidated financial statements were authorized for issuance on March 30, 2016, by Ing. Oscar Eduardo Calvillo Amaya, Chief Executive Officer, and are subject to the approval of the Technical Committee, represented by Ing. Victor Zorrilla Vargas as its President, who may modify such financial statements.

BASIS OF PRESENTATION –

- (a) **Statement of compliance**
The consolidated financial statements of Fibra INN have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").
- (b) **Basis of measurement**
The Trust's consolidated financial statements have been prepared on the basis of historical cost, except for the following items of the consolidated statement of financial position, which were measured at fair value:

- a) derivative financial instruments;
- b) the net defined benefits liability is recognized as the fair value of plan assets, less the present value of the defined benefits obligation.

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

- (c) **Basis of Consolidation**
The consolidated financial statements include those of Fibra INN and those of its subsidiary, Administradora de Activos Fibra INN, S.C., of which it holds a 99.9% of capital stock and where it holds control. Control is achieved when Fibra INN:
 - has power over the investee;
 - is exposed, or has rights, to variable returns from its involvement with an investee; and
 - has the ability to affect those returns through its power over the investee.

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

Fibra INN reassessed whether it holds control on the service entities that are mentioned in Note 1, and concluded that in accordance with IFRS 10 "Consolidated Financial Statements" it does not control such entities since it does not have the power to decide over the management of their relevant activities; as well as the fact that key operating decisions rely on the shareholders of those entities and not on Fibra INN, therefore, no control relationship exists.

- (d) **Local, functional and reporting currency**
The functional currency of the Trust is the Mexican peso, which is the same to its local and reporting currencies.

- (e) **Income statement and comprehensive income statement**
Costs and expenses presented in the consolidated income statement were classified according to their nature.

Fibra INN shows line items of gross margin and operating income since they are considered important performance indicators for the users of financial information. Income and expenses are presented based on their nature.

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

- (f) **Statement of cash flows**
Fibra INN presents its statement of cash flows using the indirect method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –

The Trust’s significant accounting policies are as follows:

(A) FINANCIAL INSTRUMENTS –

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

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

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

As of the date of these consolidated financial statements, the Trust maintains instruments classified as suppliers, other payables, related parties, loans and receivables, as well as investments in government bonds as part of cash equivalents.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets will be determined by reference to quoted prices in such markets or market rate prices of the seller (bid–price for long positions and ask–price for short positions), without deducting any transaction costs. For financial instruments that are not traded in an active market, the fair value is obtained by using appropriate valuation techniques. These techniques may include the use of recent market transactions between independent parties; reference to the fair value of other substantially similar financial instruments, cash–flows discount analysis or other valuation models.

Financial assets

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

Cash and cash equivalents

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

Trade accounts receivable and accounts receivable from related parties

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

Impairment of financial assets

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

Equity instruments

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

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

Financial liabilities

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

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

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

De–recognition of financial liabilities

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

Derivative financial instruments

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

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

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

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

(B) PROPERTY, FURNITURE AND EQUIPMENT –

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

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

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

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

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

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

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

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

	YEARS
Buildings	61
Components of buildings	9
Furniture and equipment	8
Machinery and equipment	11

The depreciation method, the useful lives and the residual values are reviewed at the end of each reporting period and are adjusted, if necessary.

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

(C) INTANGIBLE ASSETS –

Intangible assets that are acquired by the Trust, and which have a finite useful live of 5 years, are recorded at cost less accumulated amortization and accumulated impairment losses; these assets mainly include the cost of software for administrative use. Other intangible assets include use of trademark licenses and expenses related to its grant. The factor to determine their useful lives is the estimated time of use, according their contractual terms. The estimated useful lives and amortization method are reviewed at the end of each year, and the effect of any change in the recorded estimate is recognized prospectively.

(D) IMPAIRMENT OF LONG-LIVED ASSETS –

At the end of each reporting period, Fibra INN reviews the book values of its long-lived assets to determine if there is any indicator that those assets have suffered any impairment loss at the end of each reporting period. If there is any indicator, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss, if they exist. When it is not possible to estimate the recoverable amount of an individual asset, Fibra INN estimates the

recoverable amount of the cash generating unit to which such asset belongs. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. When evaluating the value in use of an asset, the future estimated cash flows are discounted to its present value using a pre-tax discount rate that reflects the actual evaluation of the market in respect to the time value of money and the specific risks of the asset for which estimates of future cash flows have not been adjusted.

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

When an impairment loss is reversed subsequently, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined if an impairment loss had not been recognized for such asset (or cash-generating unit) in prior years. The reversal of an impairment loss is immediately recognized in profit and loss within the other costs and expenses line item. During the periods ended December 31, 2015 and 2014, Fibra INN did not recognize impairment losses.

(E) PROVISIONS –

Provisions are recognized when there is a present obligation as a result of a past event, which will probably result in an outflow of economic resources, and can be reasonably estimated. For purposes of accounting, the amount is discounted to present value when the discount effect is significant. Provisions are classified as current or non-current based on the estimated period to meet the obligations that are covered. When the recovery from a third party is expected for some or all of the economic benefits required to settle a provision, an account receivable is recognized as an asset if it is virtually certain that the payment will be received and the amount of the account receivable can be valued reliably.

(F) EMPLOYEE BENEFITS –

i. *Defined benefit plans –*

A defined benefit plan is a benefit plan at the end of a labor relationship different from one of defined contributions. The Trust's net obligations with respect to the defined-benefit plan are calculated estimating the amount of future benefit accrued by employees in return for their services in ongoing and past periods; that benefit is discounted to determine its present value, and the costs for past services are deducted. The discount rate is the yield at the reporting date of the government bonds that have maturity dates approximate to the maturities of the Trust's obligations which are denominated in the same currency in which benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

ii. *Termination benefits –*

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

iii. *Short-term benefits –*

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

(G) REVENUE RECOGNITION –

Fibra INN obtains revenues from the operation of hotels and includes rental of rooms (lodging) and rental of property, which are recognized when the services are rendered.

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

Revenue from property leasing is recognized for the rents obtained. These revenues are recognized on a straight-line basis over the terms of the contract at the moment in which the service is accrued, when the amounts and the costs related to the transaction can be measured reliably and it has been determined that is probable that the economic benefits will flow to the Trust. The term of the lease is the non-cancellable period, together with any further terms for which the lessee has the option to continue to lease the asset, when at the inception of the lease, management is reasonably certain that the lessee will exercise the option.

(H) INCOME TAXES –

As mentioned in Note 1, the Trust F/1616 is eligible for and intends to maintain its current status as a FIBRA (REIT in English) for income tax purposes and, therefore, does not recognize a provision for income taxes. However, its subsidiary is subject to income taxes and, therefore, the consolidated financial statements reflect the associated impacts. Deferred income taxes are recognized over the temporary differences between the carrying amount of assets and liabilities included in the financial statements, and their corresponding tax values, which are used to determine the tax result, applying the corresponding tax rates to these differences.

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

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

(I) FOREIGN CURRENCY TRANSACTIONS –

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

(J) SHARE-BASED PAYMENTS –

Payments to employees that are made with equity shares are measured at fair value of the equity instruments at the date of grant. The fair value, determined at the grant date of the payment based on equity, is recognized in profit or loss based on the straight-line method over the period when the employee provides the related service, based on the estimate of equity instruments that management believes the employee will ultimately acquire, with a corresponding increase in equity. At the end of each reporting period, the Trust revises its estimate of the number of equity instruments that are expected to vest. The impact of the review of the original estimates, if any, is recognized in the income of the period such that the cumulative expense reflects the reviewed estimate, with a corresponding adjustment in equity.

(K) BASIC AND DILUTED EARNINGS PER CBFIS –

Basic earnings per CBFi are determined by dividing the consolidated income with the weighted average of outstanding CBFIs of the period. Diluted earnings per CBFIs are determined by adding to the number of outstanding CBFIs during the period, the 3,000,000 CBFIs correspondent to the equity-based compensation (see note 11d), which will vest if certain conditions established for the eligible executives are met.

(L) SEGMENT INFORMATION –

Operating segments are defined as components of an entity, oriented to the rendering of services that are subject to risks and benefits.

Fibra INN assesses operating segments according to the geographical areas where they operate: Northeast, South-Center, West and North. Accordingly, management of Fibra INN internally evaluates the results and performance of each business for decision-making purposes. Following this approach, in the daily operations, economic resources are allocated on an operational basis for each segment.

(M) 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 the acquisition-date fair values of the assets transferred to Fibra INN plus liabilities incurred by Fibra INN to the former owners of the acquiree and the equity interests issued by Fibra INN in exchange for control of the acquire at the acquisition date. Acquisition-related costs are generally recognized in profit or loss as incurred. At the acquisition date, identifiable assets acquired and liabilities assumed are recognized at fair value.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY –

In the application of the accounting policies of Fibra INN, as described in note 3, management is required to make judgments, estimates and assumptions about the carrying amount of certain assets and liabilities that are not easily available by other sources. Estimates and associated assumptions are based on historical experience and other factors considered relevant. The actual results may differ from these estimates.

The related estimates and assumptions are reviewed continuously. Changes to accounting estimates are recognized in the period in which the estimate is changed if the change affects solely that period, or the current period and future periods if the change affects both current and future periods.

(A) CRITICAL JUDGMENTS IN THE APPLICATION OF ACCOUNTING POLICIES –

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

Classification of leases –

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

Business combinations or acquisition of assets –

Management uses its professional judgment to determine if the acquisition of a group of assets represents a business combination. Such determination may have a significant impact in how the acquired assets and assumed liabilities are accounted for, both at the initial recognition and subsequently.

Income taxes –

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

(B) MAIN SOURCES OF ESTIMATION UNCERTAINTY IN THE ASSUMPTIONS –

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

Useful lives and residual values of property, furniture and equipment –

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

Impairment of long lived assets –

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

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

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

Defined benefit plans –

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

5. CASH AND CASH EQUIVALENTS –

	2015	2014
Cash in banks	\$ 70,446	222,238
Cash equivalents (government bonds)	726,305	884,453
Total cash and cash equivalents	\$ 796,751	1,106,691

Article 187, Section III of the New Mexican Income Tax Law establishes that the capital contribution that was not utilized to acquire properties must be invested in government bonds that are registered with the National Securities Register, or in shares of investment entities in debt instruments. During 2015 and 2014, the Trust complied with such Article and invested the remaining capital in government bonds.

6. TRADE AND OTHER ACCOUNTS RECEIVABLE –

	2015	2014
Clients for hotel services	\$ 139,630	70,483
Other accounts receivable	24,413	6,184
	\$ 164,043	76,667

Accounts receivable aging:

Fibra INN has not recognized an impairment in its receivables since it considers that all are recoverable due to the nature of the business.

7. HOTELS ACQUIRED –

Hotel acquisition transactions in 2014 and 2015 were conducted to continue the expansion of hotel operation activities in Mexico, in accordance with the growth and expansion plans established.

HOTELS ACQUIRED IN 2014 –

In 2014, Fibra Inn completed the acquisition of 11 hotels, as mentioned below:

PROPERTIES	ACQUISITION DATE	CONSIDERATION PAID IN CASH
Aloft Guadalajara ⁽¹⁾	March 31, 2014	\$ 257,500
Holiday Inn Altamira	April 28, 2014	113,020
México Plaza Aeropuerto, Silao	April 29, 2014	82,000
Casa Grande, Chihuahua	December 5, 2014	105,500
Casa Grande, Delicias	December 5, 2014	71,266
Microtel Inn Suites by Wyndham, Ciudad Juárez	November 21, 2014	61,000
Microtel Inn Suites by Wyndham, Chihuahua	December 16, 2014	73,000
Microtel Inn Suites by Wyndham, Culiacán	November 21, 2014	60,937
Microtel Inn Suites by Wyndham, Toluca	December 16, 2014	66,000
Crowne Plaza, Monterrey	December 10, 2014	351,000
México Plaza Andares, Guadalajara	December 1, 2014	183,000
		\$ 1,424,223

At the date of acquisition, the fair value of the acquired assets are presented below:

PROPERTIES	LAND	BUILDINGS	OTHER ASSETS	TOTAL
Aloft Guadalajara ⁽¹⁾	\$ 16,100	204,037	37,363	257,500
Holiday Inn, Altamira	28,255	75,193	9,572	113,020
México Plaza Aeropuerto, Silao	22,000	47,926	12,074	82,000
Casa Grande, Chihuahua	26,375	70,825	8,300	105,500
Casa Grande, Delicias	17,816	46,398	7,052	71,266
Microtel Inn Suites by Wyndham, Ciudad Juárez	15,250	35,416	10,334	61,000
Microtel Inn Suites by Wyndham, Chihuahua	18,250	48,823	5,927	73,000
Microtel Inn Suites by Wyndham, Culiacán	19,687	34,526	6,724	60,937
Microtel Inn Suites by Wyndham, Toluca	16,500	37,754	11,746	66,000
Crowne Plaza Aeropuerto, Monterrey	87,750	221,027	42,223	351,000
México Plaza Andares, Guadalajara	45,750	121,706	15,544	183,000
Total	\$ 313,733	943,631	166,859	1,424,223

⁽¹⁾ Fibra INN made a prepayment of \$37,500 related to an expected performance premium, which will be calculated in the third year of hotel operations according to formulas determined in the acquisition agreement. The Trust has allocated this payment as part of the acquisition investment, since it considers a high probability that the hotel performance is above the expectations and such payment is not expected to be returned.

The value of assets acquired in the different hotel acquisitions is similar to the acquisition price paid; therefore, no goodwill has been generated from these transactions.

From the respective acquisition dates, revenue and operating income of the acquired hotels included in Fibra INN's consolidated income statement were \$54,486 and \$10,791, respectively, as of December 31, 2014.

If the aforementioned hotels had been acquired on January 1, 2014, Fibra INN's management estimates that revenue and operating income for the period from January 1 to December 31, 2014 would have been \$271,000 and \$125,000, respectively.

Acquisition costs of acquired hotels as of December 31, 2014 amounted to \$64,338, and were recognized in the consolidated income statement.

HOTELS ACQUIRED IN 2015 –

During 2015, Fibra INN completed the acquisition of the following 7 hotels in operation:

PROPERTIES	DATE OF ACQUISITION	CONSIDERATION PAID IN CASH	
Holiday Inn, Reynosa Industrial Poniente	June 1, 2015	\$	114,600
Hampton Inn by Hilton, Hermosillo	June 1, 2015		175,000
Staybridge Suites, Guadalajara Expo	August 17, 2015		133,600
Arriva Express, Guadalajara Plaza del Sol Expo	August 17, 2015		141,400
Hampton Inn by Hilton, Chihuahua	December 11, 2015		318,413
City Express Junior, Chihuahua	December 11, 2015		34,197
City Express, Chihuahua	December 11, 2015		84,652
		\$	1,001,862

At the date of acquisition, the fair value of the acquired assets is presented below:

PROPERTIES	LAND	BUILDINGS	OTHER ASSETS	TOTAL
Holiday Inn, Reynosa Industrial Poniente	\$ 28,650	75,256	10,694	114,600
Hampoton Inn by Hilton, Hermosillo	43,750	115,052	16,198	175,000
Staybridge Suites, Guadalajara Expo	33,400	86,838	13,362	133,600
Arriva Express, Guadalajara Plaza del Sol Expo	35,350	92,078	13,972	141,400
Hampton Inn by Hilton, Chihuahua	87,001	217,786	13,626	318,413
City Express Junior, Chihuahua	8,834	22,519	2,844	34,197
City Express, Chihuahua	21,707	55,956	6,989	84,652
	\$ 258,692	665,485	77,686	1,001,862

The value of assets for hotels acquired is similar to the acquisition price paid; therefore, no goodwill was generated from the acquisitions.

From the respective acquisition dates, revenue and operating income of the acquired hotels included in Fibra INN's consolidated income statement were \$59,862 and \$17,171, respectively, as of December 31, 2015.

If the aforementioned hotels had been acquired on January 1, 2015, Fibra INN's management estimates that revenue and operating income for the period from January 1 to December 31, 2015 would have been \$214,203 and \$91,620, respectively.

Acquisition costs of acquired hotels as of December 31, 2015 amounted to \$59,944, and were recognized in the consolidated income statement.

8. PROPERTY, FURNITURE AND EQUIPMENT –

	2015	2014
Land	\$ 1,378,461	1,093,097
Buildings	5,176,161	4,240,395
Components of buildings	391,647	271,870
Machinery and equipment	249,223	183,623
Furniture and equipment	378,715	220,285
	7,574,207	6,009,270
Less accumulated depreciation	(315,870)	(158,820)
	7,258,337	5,850,450
Constructions in process	365,027	190,654
	\$ 7,623,364	6,041,104

As of December 31, 2015 and 2014, constructions in process are mainly related to renovations of current hotels and hotels under development, respectively. As mentioned in Note 1, in 2015, Fibra INN concluded the construction of the hotels Courtyard by Marriot in Saltillo and Fairfield Inn & Suites by Marriot in Coatzacoalcos; therefore, the cost of the constructions has been reclassified to the corresponding depreciable asset line items from the date operations commenced.

Cost of properties include \$16,561 and \$11,147 of capitalized interest during 2015 and 2014, respectively.

The activity of property, furniture and equipment in fiscal years 2015 and 2014 was as follows:

	BALANCES AS OF JANUARY 1, 2015	BUSINESS ACQUISITIONS	ADDITIONS	CAPITALIZATIONS	RECLASS- IFICATIONS	BALANCES AS OF DECEMBER 31, 2015
HISTORIC COST						
Land	\$ 1,093,097	258,692	–	26,672	–	1,378,461
Buildings	4,240,395	644,493	4,536	257,505	29,232	5,176,161
Components of buildings	271,870	20,992	45,972	80,594	(27,781)	391,647
Machinery and equipment	183,623	30,816	18,270	16,514	–	249,223
Furniture and equipment	220,285	46,869	38,980	72,581	–	378,715
Constructions in process	190,654	–	629,690	(453,866)	(1,451)	365,027
	\$ 6,199,924	1,001,862	737,448	–	–	7,939,234

	BALANCES AS OF JANUARY 1, 2014	BUSINESS ACQUISITIONS	ADDITIONS	CAPITALIZATIONS	BALANCES AS OF DECEMBER 31, 2014
HISTORIC COST					
Land	\$ 779,364	313,733	–	–	1,093,097
Buildings	3,078,533	943,631	17,028	201,203	4,240,395
Components of buildings	173,272	67,879	9,119	21,600	271,870
Machinery and equipment	100,195	54,228	8,002	21,198	183,623
Furniture and equipment	118,769	44,752	10,182	46,582	220,285
Constructions in process	96,598	–	384,639	(290,583)	190,654
	\$ 4,346,731	1,424,223	428,970	–	6,199,924

Accumulated depreciation –

	ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2014	2015 DEPRECIATION EXPENSE	ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2015
Buildings	\$ 73,880	69,976	143,856
Components of buildings	51,937	40,530	92,467
Machinery and equipment	16,385	23,021	39,406
Furniture and equipment	16,618	23,523	40,141
	\$ 158,820	157,050	315,870

Accumulated depreciation –

	ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2013	2014 DEPRECIATION EXPENSE	ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2014
Buildings	\$ 22,822	51,058	73,880
Components of buildings	17,288	34,649	51,937
Machinery and equipment	4,970	11,415	16,385
Furniture and equipment	5,484	11,134	16,618
	\$ 50,564	108,256	158,820

As of December 31, 2015, there are 16 properties that guarantee the bank loans mentioned in note 16.

9. PROPERTY ACQUISITION LIABILITY –

As of December 31, 2015, there are net assumed liabilities of \$10,000 for advance payments relating to the acquisition of Hotel México Plaza Andares.

The hotel acquisition liabilities that existed as of December 31, 2014 corresponding to hotels México Plaza Andares and Microtel Toluca of \$134,655, were settled on February 25 and March 26, 2015.

10. INTANGIBLE ASSETS –

As of December 31 2015 and 2014, intangible assets with definite useful live are as follows:

	2015	2014
Licenses and expenses related to use of trademarks	\$ 12,338	8,550
Software	25,365	10,405
	37,703	18,955
Less accumulated amortization	654	–
	\$ 37,049	18,955

Trademark use rights represent rights acquired for the use of national and international franchises, currently under operation of hotels established in Mexico.

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES –

a. Transactions with related parties were as follows:

	2015	2014
Acquisition, asset management and development advisory services ⁽¹⁾	\$ 62,238	83,350
Hotel management and professional services ⁽²⁾	356,102	226,522
Lodging income	–	2,117
Income from leasing ⁽³⁾	74,659	44,928

- (1) Asesor de Activos Prisma, S.A.P.I. de C.V., as mentioned in note 1(i).
(2) Gestor de Activos Prisma, S.A.P.I. de C.V., Servicios Integrales Fibra Inn, S.A.P.I. de C.V. and Impulsora Fibra Inn, S.A.P.I. de C.V., as mentioned in note 1(ii) and 1(iii).
(3) Operadora México Servicios y Restaurantes, S.A.P.I. de C.V., as mentioned in note 1(iv).

b. Accounts receivable from related parties are:

	2015	2014
Short-term		
Operadora México Servicios y Restaurantes, S.A.P.I. de C.V. ⁽¹⁾	\$ 46,874	11,306
Trust 1765 ⁽²⁾	20,088	3,969
Servicios Integrales Fibra Inn, S.A.P.I. de C.V. ⁽³⁾	12,827	2,991
Hotelera Saltillo, S.A.P.I. de C.V. ⁽²⁾	8,540	5,683
Prisma Torreón, S.A.P.I. de C.V. ⁽²⁾	5,071	11,720
Gestor de Activos Prisma, S.A.P.I. de C.V.	2,017	1,791
Impulsora Fibra Inn, S.A.P.I de C.V.	1,816	18
Asesor de Activos Prisma , S.A.P.I. de C.V. ⁽⁴⁾	20	42
	\$ 97,253	37,520
Long-term		
Operadora México Servicios y Restaurantes, S.A.P.I. de CV. ⁽⁵⁾	22,568	15,700
Trust 1765 ⁽⁵⁾	2,400	900
	\$ 24,968	16,600

- (1) Derived primarily from leasing of spaces.
(2) Derived from collections on account of Trust F/1616.
(3) Derived from payroll services.
(4) There is an account receivable from shareholders in the amount of \$20 related to the initial contributed capital.
(5) Long-term loans with such related parties for working capital for hotel operations.

c. Payables with related parties are:

	2015	2014
Asesor de Activos Prisma, S.A.P.I. de C.V. ⁽¹⁾	\$ 14,699	29,069
Hotelera Saltillo, S.A.P.I. de C.V. ⁽²⁾	8,219	887
Fideicomiso Irrevocable No F/1765 ⁽³⁾	5,949	11,963
Gestor de Activos Prisma, S.A.P.I. de C.V. ⁽⁴⁾	4,228	9,370
Impulsora Fibra Inn, S.A.P.I de C.V. ⁽⁵⁾	3,464	420
Prisma Torreón, S.A.P.I. de C.V. ⁽²⁾	3,413	8,052
Servicios Integrales Fibra Inn, S.A.P.I. de C.V. ⁽⁵⁾	3,111	6,116
Operadora México Servicios y Restaurantes, S.A.P.I. de C.V.	2,118	3,503
HPM Edificaciones S.A.P.I. de C.V.	8	7
	45,209	69,387
Less: current portion of the liability	(45,209)	(67,343)
Long-term payable	\$ –	2,044

- (1) Advisory services for assets management and acquisition and development of new investments.
- (2) Primarily derived from payments made on behalf of the Trust, as well as for services of the period that basically corresponds to the Trust.
- (3) Operating services rendered in hotels, mainly food and beverages.
- (4) Hotel management services and until March 2014, personnel administrative services.
- (5) Payroll services. Additionally, there is a long-term liability of \$2,044 that corresponds to labor obligations of 2014. In 2015, this liability was settled.
- d. The benefits granted to key management personnel during the period are shown below:

	2015	2014
Short term benefits	\$ 43,833	24,611
Share-based compensation	18,500	18,500
	\$ 62,333	43,111

- Fibra INN has constituted a long term compensation plan for certain eligible executives, which consists in granting 3,000,000 equity instruments (CBFIs), conditioned to their employment in the Trust for a period of 3 years. This compensation plan qualifies as a consideration under the scope of IFRS 2, “Share-based Payments”. The service provided and the corresponding increase in equity of the Trust is measured at fair value, which is the market value of the equity instruments at the grant date. The Trust recognized a total amount of \$18,500 in 2015 and 2014, respectively, for services received during the period based on the best estimate of the number of instruments that are expected to vest impacting equity.
- e. Transactions with management personnel and close family members

The Trust does not enter into business transactions with management personnel and their close family members other than transactions at market value and available to the general public and whose amounts are not significant.

12. TRUSTORS’ EQUITY –

CONTRIBUTIONS –

- a. The Trust’s equity consists of an initial contribution of \$20 and of the proceeds of the issuance of CBFIs.
- b. On November 21, 2014, Fibra Inn concluded the subscription process exclusive for CBFIs holders, subscribing an aggregate of 178,685,324 new CBFIs at a subscription price of \$15.85 for an aggregate of \$2,832,162.

As of December 31, 2015 and 2014, the amount of outstanding CBFIs amounted to 437,019,542. As of these same dates, there are 3,000,000 CBFIs in Treasury, which represent \$55,500.

REIMBURSEMENTS AND DISTRIBUTIONS TO HOLDERS OF CERTIFICATES –

- a. On February 25, 2014, the Technical Committee of Fibra INN approved through the authorization of the majority of its independent members distributions for a total amount of \$6,917 with a value of \$0.0268 per CBFI. On the same date, a capital reimbursement for a total of \$54,764 with a value of \$0.2120 per CBFI was approved. This distribution was paid in cash by Fibra INN on March 12, 2014.
- b. On April 23, 2014, the Technical Committee of Fibra INN approved through the authorization of the majority of its independent members distributions for a total amount of \$5,699, with a value of \$0.0220 per CBFI. On the same date, a capital reimbursement for a total of \$53,274 with a value of \$0.2062 per CBFI was approved. This distribution was paid in cash by Fibra INN on May 12, 2014.
- c. On July 24, 2014, the Technical Committee of Fibra INN approved through the authorization of the majority of its independent members distributions for a total amount of \$43,481 with a value of \$0.1683 per CBFI. This distribution was paid in cash by Fibra INN on August 11, 2014.
- d. On October 20, 2014, the Technical Committee of Fibra INN approved through the authorization of the majority of its independent members distributions for a total amount of \$59,999 with a value of \$0.2323 per CBFI. This distribution was paid in cash by Fibra INN on November 10, 2014.
- e. On February 26, 2015, the Technical Committee of Fibra INN approved a capital reimbursement of \$74,615 with a value of \$0.1707 per outstanding CBFI. This distribution was paid in cash by Fibra INN on March 6, 2015, corresponding to the period from October 1 to December 31, 2014.
- f. On April 21, 2015, the Technical Committee of Fibra INN approved a capital reimbursement of \$78,535 with a value of \$0.1797 per outstanding CBFI. This distribution was paid in cash by Fibra INN on April 29, 2015 corresponding to the period from January 1 to March 31, of 2015.
- g. On July 27, 2015, the Technical Committee of Fibra INN approved a capital reimbursement of \$88,304 with a value of \$0.2021 per outstanding CBFI. This distribution was paid in cash by Fibra INN on July 31 of 2015 corresponding to the period from April 1 to June 30, 2015.
- h. On October 15, 2015, the Technical Committee of Fibra INN approved a capital reimbursement of \$78,816 with a value of \$0.1803 per outstanding CBFI. This distribution was paid in cash by Fibra INN on October 23, 2015 corresponding to the period from July 1 to September 30, 2015.

ISSUANCE OF CBFIS –

As of December 31, 2015, the issuance of CBFIs as a part of the equity consists of:

CONCEPT	PRICE	CONTRIBUTED CAPITAL
<u>2013</u>		
Initial contributions:		
Cash contributions:		
162,452,028 CBFIs issued	18.50	\$ 3,005,363
Contribution in kind:		
95,882,190 CBFIs issued	18.50	1,773,820
		4,779,183
Issuance costs		(237,399)
Total issuance of CBFIs in 2014		\$ 4,541,784
<u>2014</u>		
Cash contribution:		
178,685,324 CBFIs issued	15.85	2,832,162
Issuance costs		(81,352)
Total issuance of CBFIs in 2014		\$ 2,750,810

RESERVES –

Executive share-based compensation reserve –

The effect resulting from the executive share-based compensation reserve is determined in accordance with IFRS 2, “Share-based Payments”, which is measured at fair value of the market of the instrument at the grant date, as mentioned in note 11 d.

Reserve of valuation effect of derivate financial instruments

The hedging reserve comprises the effective portion of the net accumulated change in fair value of interest rate hedge instruments related to hedging transactions that have not been settled.

13. INCOME TAX –

Trust F/1616 qualifies as a transparent entity in Mexico in accordance to Income Tax Law. Therefore, all proceeds resulting from the Trust’s operations are attributable to the holders of CBFIs and the Trust is not subject to income tax in Mexico.

In order to maintain its FIBRA status, the Tax Administration Service established, in Articles 223 and 224 of the Income Tax Law, that Fibra INN must annually distribute at least 95% of its net tax result to CBFIs holders of Fibra INN. The holders of CBFIs confirmed their agreement that the Trustee complies with its obligations as required by the IETU Law and thus determines taxable income in accordance with Clause V of Rule I.4.4.3 of the 2013 Miscellaneous Tax Resolution. In accordance with the new 2014 Income Tax Law, articles related to tax requirements for FIBRAs are now 187 and 188, which support the same characteristics than the prior.

The Trust’s subsidiary is subject to ISR.

Income tax – The rate was 30% in accordance to the new Income Tax Law (“2014 Act”) and it will remain the same for subsequent years.

Deferred income taxes are calculated on the basis of income tax at the rate applicable to the period in which the reversal of the temporary difference corresponding expected.

a. Income taxes recognized in profit or loss:

	2015	2014
Deferred income tax	\$ 458	(247)

14. EMPLOYEE BENEFITS –

The movement in the defined benefit obligation during the year is shown below:

a. Defined benefit plans

	RETIREMENT BENEFITS	
	2015	2014
Defined benefit obligation	\$ 231	246
Current service cost	53	63
Benefits paid	(54)	(51)
Initial liability assumed	–	(29)
Actuarial gains and losses recognized in the statement of profit or loss	22	3
Net projected liability	\$ 252	232

b. Cost recognized in profit or loss

	RETIREMENT BENEFITS	
	2015	2014
NET COST OF THE PERIOD:		
Current service cost	\$ 39	45
Interest cost	14	18
Net cost of the period	\$ 53	63

15. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT –

CATEGORIES OF FINANCIAL INSTRUMENTS –

	2015	2014
<i>Financial assets:</i>		
Cash and cash equivalents	\$ 796,751	1,106,691
Trade and other accounts receivable	164,043	76,667
Accounts receivable from related parties	122,221	54,120
<i>Financial liabilities:</i>		
<i>Measured at amortized cost:</i>		
Suppliers	\$ 131,707	53,301
Other payables	10,190	4,025
Property acquisition liability	10,000	144,655
Accounts payable to related parties	45,209	69,387
Advances from clients	1,132	4,784
Bank commissions	8,662	15,301
Bank loans	69,397	66,029
Debt securities	1,847,852	–
<i>Measured at fair value:</i>		
Derivative financial instruments	5,257	893

The carrying amount of financial instruments held by the Trust, such as cash and cash equivalents, accounts receivable and accounts payable, approximate their fair values due to their short maturities. Additionally, since the disposal of the line of credit entered into by the Trust was performed in recent market terms, as it is mentioned in note 16, it is considered that its carrying amount does not differ significantly from its fair value.

Fibra INN considers that the carrying amounts of its financial instruments approximate their fair values given their short maturity period.

As of December 31, 2015 and 2014, the bank loan balance is \$69,397 and \$66,029, net of debt issuance costs of \$30,603 and \$33,971, corresponds to the partial disposal of the line of credit realized in December 2015 and 2014, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS

On December 2014, Fibra INN entered into a derivative financial instrument contract to hedge the total outstanding balance of the line of credit contracted in September 2014 through an interest rate swap converting its variable rate into a fixed rate with the same maturity of the outstanding balance.

In July, August and November 2015, Fibra INN entered into derivative financial instruments contracts to hedge \$525,000 of the total amount of the fiduciary trust certificates issued for \$1,875,350 in September 30, 2015, through interest rate swaps, turning its variable rate into a fixed rate. The derivative financial instruments are described below:

COUNTERPARTIES	NOTIONAL	CURRENT BASIC CONDITIONS	FAIR VALUE LIABILITY	
			2015	2014
Various ⁽¹⁾	\$ 100,000	Fibra INN pays a fixed rate in Mexican pesos of 5.37% and receives TIIE	\$ (1,484)	(893)
Various ⁽¹⁾	\$ 75,000	Fibra INN pays a fixed rate in Mexican pesos of 5.17% and receives TIIE	(665)	–
Various ⁽¹⁾	\$ 210,000	Fibra INN pays a fixed rate in Mexican pesos of 5.25% and receives TIIE	(2,367)	–
Santander ⁽²⁾	\$ 240,000	Fibra INN pays a fixed rate in Mexican pesos of 5.18% and receives TIIE	(741)	–
			<u>\$ (5,257)</u>	<u>(893)</u>

⁽¹⁾ Banorte, Actinver, Banamex, BanRegio and Scotiabank. Such derivative financial instrument matures on March 8, 2019.
⁽²⁾ Such derivative financial instrument matures on September 27, 2019.

FAIR VALUE HIERARCHY

The following table analyzes financial instruments measured at fair value through the fair value hierarchy described below.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability are not based in observable market data (unobservable inputs).

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
As of December 31, 2015				
Derivative financial instruments	\$ –	5,257	–	5,257
As of December 31, 2014				
Derivative financial instruments	\$ –	893	–	893

CAPITAL MANAGEMENT

Fibra INN manages its capital with the objective of maximizing the wealth of its shareholders and the distributions by optimizing the ratio of debt and equity. The bank debt as of December 31, 2015 was \$69,397, net of loan expenses of \$30,603, which represented 1.08% of total assets. On the other hand, the public debt represented by the issuance of fiduciary trust certificates at the end of the reporting period was \$1,847,852, net of issuance costs of \$27,498, which represented 20.1% of total assets. In order to maintain an appropriate ratio between assets and liabilities, the Mexican Securities Law establishes a limit for the assumption of debt for issuers and considers a debt service ratio.

Fibra INN’s capital consists mainly of equity. The objectives of capital management are to manage the capital to make sure that the operating funds are available to maintain consistency and sustainability in the distributions to its shareholders and fund required capital expenses, as well as to provide necessary resources for the acquisition and development of new properties.

FINANCIAL RISK MANAGEMENT

The objective of the Trust’s financial risk management, is to comply with its financial expectations, operating results and cash flows that improve the financial position of Fibra INN, in addition to ensuring the ability of making distributions to CBFIs holders’ and satisfying any future debt obligations.

The role of the Technical Committee of Fibra INN is to advise and instruct the trustee with the sale or repurchase of CBFIs, analyze and approve potential investments, acquisitions and disposals, provide corporate services, coordinate access to domestic financial markets, monitor and manage the financial risks associated with Fibra INN’s operations through internal risk reports which analyze exposures by degree and risk magnitude. These risks include market risk (including risk of changes in market prices, currency risk and interest rate risk), credit risk and liquidity risk.

MARKET RISK MANAGEMENT

Fibra INN’s activities may be exposed to finance risks related to changes in market interest rates, foreign exchange rates and mainly in market prices, affecting the revenues of the Trust or the value of its financial instruments.

INTEREST RATE RISK

Fibra INN can obtain financing under different conditions, either from third parties or related parties and variable interest rates would expose it to changes in market rates. As of December 31, 2014, the Trust is not significantly exposed to interest rate variations because it entered into a derivative financial instrument to hedge the total outstanding balance of the financial debt described in note 16, through an interest rate swap with the same maturity of the outstanding balance. As of December 31, 2015, the Trust is exposed to interest rate variations because it has only hedged 28% of the outstanding balance of the fiduciary trust certificates issued in September of that year.

SENSITIVITY ANALYSIS TO INTEREST RATE RISK

If the TIIE were to increase or decrease 100 base points (1.00%), and all other variables remained constant, the results of the year and equity of Fibra INN for the year ended December 31, 2015, would have a positive or negative impact, respectively, of approximately \$4,688.

TIIE	BALANCE	EFFECT IN EQUITY AND PROFIT OR LOSS
+ 100 base points	1,880,038	4,688
No change	1,875,350	–
– 100 base points	1,870,662	(4,688)

FOREIGN CURRENCY RISK

Fibra INN enters into transactions denominated in U.S. dollars (“dollar”); therefore, it is exposed to currency fluctuations between the exchange rate of the Mexican peso and the U.S. dollar.

- a. The financial position in foreign currency as of December 31, 2015 and 2014 is:

	2015	2014
U.S. dollars:		
Financial assets	318	529
Financial liabilities	(138)	(92)
Financial position	180	437

- b. The exchange rates, in Mexican pesos, as of the date of the consolidated financial statements are:

	2015	2014
U.S. dollar	17.3398	14.7348

SENSITIVITY ANALYSIS TO FOREIGN EXCHANGE RISK

If the exchange rate were to increase or decrease \$1 Mexican peso per U.S. dollar with all other variables held constant, the results of the year and equity of Fibra INN for the year ended December 31, 2015, would have a positive or negative effect, respectively, of approximately \$180.

EXCHANGE RATE	BALANCES (MXN)	EFFECT IN EQUITY AND PROFIT OR LOSS (MXN)
+ \$1 USD	3,301	(180)
No change	3,121	–
– \$1 USD	2,941	180

CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty breaches its contractual obligations resulting in financial loss to Fibra INN. Virtually, all of Fibra INN’s income is derived from hotel services. As a result, its performance depends on its ability to collect the amounts from hotel services rendered to guests and the guests’ ability to make the payments. Revenue and funds available for distribution would be adversely affected if a significant number of guests do not make the rental payments when they are due; which could result in the closing of operations or bankruptcy.

Management of Fibra INN has determined that the maximum exposure to credit risk is shown in the statement of financial position for its accounts receivables, related parties and other accounts receivables. As mentioned in note 6, the Trust does not have receivables overdue that are significant as of the date of these financial statements, thus it has not recognized an allowance for doubtful accounts. In addition, Fibra INN limits the exposure to credit risk investing solely in low-risk liquid instruments, mainly government bonds. Hence, management does not expect that any of its counterparties will not meet their obligations.

LIQUIDITY RISK MANAGEMENT

Liquidity risk represents the possibility that Fibra INN has difficulties to comply with its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Fibra INN has established an appropriate framework for managing liquidity risk in the short, medium and long term. Fibra INN manages its liquidity risk by

maintaining adequate reserves, monitoring expected cash flow requirements and actual income, and by managing the maturity profiles of its financial assets and liabilities. The Treasury department monitors the maturity of its liabilities to comply with the respective payments.

The following table shows Fibra INN’s outstanding maturities for non-derivative financial liabilities as of December 31, 2015:

	1 YEAR	MORE THAN 1 YEAR
Suppliers	\$ 131,707	–
Other payables	10,190	–
Properties’ acquisition liability	10,000	–
Accounts receivable from related parties	45,209	–
Bank commissions	8,662	–
Advances from clients	1,132	–
Bank loans	–	69,397
Debt securities	–	1,847,852
	\$ 206,900	1,917,249

The following table shows the contractual maturity of the remaining financial liabilities (debt) with established payment periods. The table has been prepared from the financial liabilities undiscounted cash flows based on the earliest date in which Fibra INN is required to pay. To the extent that the interest cash flows are variable, the undiscounted amount is derived from the interest rates available at the end of the reporting period. The contractual maturity is based on the earliest date in which Fibra INN may be required to make the corresponding payments.

	LESS THAN 1 YEAR	1–3 YEARS	MORE THAN 3 YEARS
December 31, 2015			
Debt securities	–	–	1,875,350
Instruments with variable interest rate	–	–	100,000
Nominal interests of financial instruments measured at amortized cost	96,735	193,470	248,819
	\$ 96,735	193,470	2,224,169

The included amounts of the derivative instruments with variable interest rates are subject to changes if variable interest rate is modified with reference of the estimations done at date of the financial statements.

16. LONG-TERM DEBT –

BANK LOANS

On September 9, 2014 the Trust signed an agreement to enter into a bank line of credit for \$2,300,000 to fund its real property acquisition and development growth plan.

The institutions participating in the line of credit are: Banorte, Actinver, Banamex, BanRegio and Scotiabank. This bank debt is located in a cash line of credit account that has a fiduciary and pledge collateral, with a term of 54 months and payable at maturity. The agreed interest rate is TIIE plus 2.5% for the first three years, plus two increases: an additional 0.25% during months 37 to 45 and a 0.5% additional increase during months 46 to 54. Interest is paid every quarter of the year. The credit agreement establishes certain obligations to do and not to do as well as to meet certain financial ratios, which as of the date of the financial statements have been met by the Trust.

During the year ended December 31, 2015, Fibra INN made the following disposals of the bank line of credit: \$150,000 on June 25, \$300,000 on August 12 and \$150,000 on September 7. However, derived from the funds of the offering of the fiduciary trust certificates on September 30 of that year, \$600,000 was paid in advance.

As of December 31, 2015 and 2014, the long-term debt balance consists of the following:

		2015	2014
Utilized line of credit	\$	100,000	100,000
Less transaction costs		(30,603)	(33,971)
	\$	69,397	66,029

Costs directly related to obtaining bank loans are capitalized and amortized over the contractual term of the loan.

The Trust is contractually required to hedge at least 70% of the unpaid balance of the bank loan entered into in 2014 with a derivative to exchange the variable rate TIIE for a fixed rate. As of December 31, 2015 and 2014, Fibra INN hedged 100% of the outstanding balance with each of the financial institutions participating in the line of credit, through an interest rate swap with the same maturity as the disposed balance.

As of December 31, 2015 and 2014, there are bank charges payable of \$8,662 and \$15,301, respectively, of which \$4,600 is presented in as of December 31, 2014.

At the beginning of the fiscal year 2014, Fibra INN obtained short-term loans of \$900,000 with Actinver and Banorte. Such loans were settled during November 2014.

DEBT ISSUANCE

On September 30, 2015, Fibra INN issued debt securities (Fiduciary Trust Certificates “CBFs”) of \$1,875,350 under a program of up to \$5,000,000. Public debt represented \$1,847,852 net of expenses of \$27,498, which bears interest every 28 days at a variable rate equal to TIIE 28 plus 110 basis points, over a 6-year term, and paying principal upon maturity in 2021. The funds arising from such debt issuance were allocated to pay \$600,000 of the bank line of credit outstanding as of December 31, 2015, and to continue with hotel expansion operating plans.

17. COMMITMENTS –

- a. Minimum lease payments

The minimum lease payments for operating leases where Fibra Inn is the lessee, are as follows:

YEAR	TOTAL
Less than 1 year	\$ 45,353
1 – 5 years	226,766
More than 5 years	555,315
	\$ 827,434

The minimum lease payments presented above do not consider any adjustment of time value of money to the rental income, to which Fibra INN has contractual rights. As well, it does not consider any variable rents, nor renewal periods, only mandatory terms for lessors. As well, the minimum rental income, by contract, is monitored at least once a year.

- b. Franchises

Fibra INN has entered into franchise contracts to operate with various trademarks such as Intercontinental Hotel Group, Hilton Worldwide, Wyndham Hotel Group International, Marriott International, and W International Inc., which are valid during periods between 10 and 20 years. Under these contracts, there is an obligation to pay royalties between 2% and 5% of the revenue generated from lodging, marketing expenses, loyalty program charges, among others. Total payments arising from these concepts amounted to \$132,915 and \$95,935 as of December 31, 2015 and 2014, respectively.

- c. Fibra INN has a binding agreement to acquire the hotel Courtyard by Marriot in the state of Chihuahua, which is currently under development. The purchase agreement amounts to \$234,404 and the payment will be made once the construction is completed and when the hotel starts operations.

- d. Litigation

Fibra INN is involved in various lawsuits and claims arising from the normal course of business and other contractual obligations, which are not expected to have a significant effect on its financial position and future results of operations.

- e. Tax contingencies

Under current tax law, the authorities are entitled to examine the five fiscal years prior to the last tax return filed.

In accordance with the Income Tax Law, companies that conduct transactions with related parties are subject to certain limitations and tax requirements, regarding the determination of the agreed-upon prices, because they must be equivalent to those that would be used in arm’s-length transactions.

In case the tax authorities review the prices and reject the agreed amounts, they may require, in addition to charging the corresponding tax and complementary charges (restatement and surcharges), penalties on unpaid taxes, which could be up to a 100% of the inflation adjusted amounts.

18. BUSINESS SEGMENT INFORMATION –

According to IFRS 8, *Operating Segments*, Fibra INN discloses financial information by region, which is informed and regularly monitored by the Technical Committee and the executives in charge of making decisions. Fibra INN operates in four geographical areas that constitute its reportable segments:

- Northeast (Nuevo León, Coahuila and Tamaulipas)
- South Central (Querétaro, Estado de México, Puebla, Guanajuato, Quintana Roo and Mexico City)
- West (Jalisco); and
- North (Chihuahua, Sinaloa and Sonora).

There were no intersegment transactions recorded. The accounting principles of the reportable segments are the same accounting policies of the Trust described in note 3. The gross margin by segment represents the income on the same basis presented in the consolidated income statement.

The following information represents the measurements that are informed to management in charge of making operating decisions for purposes of allocating and distributing resources as well as assessing segment performance. For the years ended December 31, 2015 and 2014, income from ongoing operations of the Trust from external customers by geographic location are as follows:

2015	NORTHEAST	SOUTH CENTRAL	WEST	NORTH	CONSOLIDATED
Lodging income	\$ 442,896	463,908	155,036	166,560	1,228,400
Rental income	19,468	48,675	4,473	8,760	81,376
Gross margin	190,993	182,183	58,344	64,518	496,038
Property, furniture and equipment	2,187,237	2,989,480	1,180,391	1,266,256	7,623,364
Depreciation	48,593	71,589	12,432	24,436	157,050

2014	NORTHEAST	SOUTH CENTRAL	WEST	NORTH	CONSOLIDATED
Lodging income	\$ 294,303	411,566	78,590	47,692	832,151
Rental income	11,059	38,800	1,404	859	52,122
Gross margin	119,244	166,987	26,828	17,223	330,282
Property, furniture and equipment	1,793,333	2,844,232	854,115	549,424	6,041,104
Depreciation	33,050	57,912	12,376	4,918	108,256

19. SUBSEQUENT EVENTS –

- a) On March 2, 2016, Fibra INN announced the development of the hotel JW Marriot in San Pedro Garza García, Nuevo León, which is estimated to start operations in the third quarter of 2019, and whose projected capitalization rate is 11.45%. For such development, Fibra INN entered into a franchise agreement with Marriot Switzerland Licensing Company SÂ RL to use the trademark JW Marriot, and will enter into a joint venture agreement with a group of investors under which it will have voting rights of between 25% and 33%.
- b) On March 7, 2016, based on the terms and conditions established in Appendix 12.9 of the Trust’s Contract, the Technical Committee announced a cash distribution from the capital reimbursement for the period from October 1, 2015 to December 31, 2015, which was paid on March 16, 2016. The total payment in Mexican pesos amounted to \$92,442 with a value of 0.2115 per outstanding CBFI.
- c) On March 15, 2016, Fibra INN announced the establishment of a binding agreement to acquire the hotel Casa Grande in Ciudad Juárez, Chihuahua for up to \$115,000 plus corresponding taxes, acquisition expenses and value added tax. The hotel has 145 rooms; however, Fibra INN is planning to maximize its return through expansions and by changing the trademark to an international one for up to \$168,000.
- d) On March 18, 2016, Fibra INN put into circulation 3,000,000 CBFI’s as consideration for the Chief Executive Officer based on an agreement established at the time of the initial public offering in March 2013. As a result of this transaction, the amount of outstanding CBFI’s amounts to 440,019,542, and 50,000,000 CBFI’s remain in Treasury, representing a dilution of 0.69%. Jointly with this transaction, Fibra INN offered 1,050,000 CBFI’s at a price of \$13.26, and the remaining 1,950,000 CBFI’s were transferred to the Control Trust.

20. NEW ACCOUNTING STANDARDS AND NON–ADOPTED INTERPRETATIONS –

Fibra INN has not applied the following new and revised IFRS, which are not effective yet as of December 31, 2015.

IFRS 9, FINANCIAL INSTRUMENTS

IFRS 9, “Financial Instruments” issued in July 2014, is the replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. This standard includes requirements for recognition and measurement, impairment, de–recognition and general hedge accounting. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this phase of the project was separated from the IFRS 9 project.

IFRS 9 (2014) is a complete standard that includes the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. Regarding the new measurement category of FVTOCI, it will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

Fibra INN is in the process of assessing the potential impacts from the adoption of this standard in its financial statements.

IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15, “Revenue from Contracts with Customers”, was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018, earlier application is permitted. Under this standard, revenue recognition is based on control; that is, control is used to determine when a good or service is transferred to the customer.

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry–specific guidance. In applying the revenue model to contracts within its scope, an entity will: 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. In addition, the number of disclosures required is increased for both annual and interim financial statements.

Fibra INN is in the process of assessing the potential impacts on its financial statements from the adoption of this standard.

IFRS 16, LEASES

IFRS 16 “Leases” was issued in January 2016 and supersedes IAS 17 “Leases” and related interpretations. The new standard brings most leases on–balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 ‘Revenue from Contracts with Customers’ has also been applied.

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

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

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

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

Fibra INN is in the process of assessing the potential impacts on its financial statements from the adoption of this standard.

AMENDMENTS TO IAS 12, *INCOME TAXES*

Amendments to IAS 12 “*Income Taxes*”, clarify that unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use. Additionally, they specify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and when comparing deductible temporary differences with future taxable profits, these exclude tax deductions resulting from the reversal of those deductible temporary differences. These amendments are effective for annual periods beginning on January 1, 2017 with retrospective application, although earlier application is permitted.

Fibra INN is in the process of assessing the potential impacts that will derive from the adoption of these amendments on its consolidated financial statements.

AMENDMENTS TO IAS 7, *DISCLOSURE INITIATIVE*

The amendments to IAS 7 *Statement of Cash Flows*, require that the following changes in liabilities arising from financing activities are disclosed separately:

- (i) Changes from financing cash flows
- (ii) Changes arising from obtaining or losing control of subsidiaries or other business
- (iii) Changes in foreign exchange rates
- (iv) Changes in fair values
- (v) Other changes

One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition. These amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted, and entities need not provide comparative information when they first apply them.

Fibra INN is in the process of determining the potential impacts that will derive from the adoption of these amendments on its consolidated financial statements.