

MANTENIMIENTO Y CONSERVACION DE
VIALIDADES, S.A. DE C.V.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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DE VIALIDADES, S.A. DE C.V.

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DECEMBER 31, 2016 AND 2015

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REPORT OF INDEPENDENT AUDITORS

Querétaro, Qro. February 10, 2017

To the shareholders Meeting of
Mantenimiento y Conservación de Vialidades, S.A de C.V.:

We have audited the accompanying financial statements of Mantenimiento y Conservación de Vialidades, S. A. de C. V., which comprise the statement of financial position as at December 31, 2016 and 2015, and statements of comprehensive income, statement of changes in stockholders' equity and statement of cash flow for the years ended at December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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

DESPACHO HOWARD & WAYMAN, SC

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except by mentioned in the next paragraph, we believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

As mentioned in the previous paragraph, the financial statements attached acknowledge no accrued effects of inflation on the financial information provided up to December 31, 2016. The financial statements attached here to have not acknowledged the effects of inflation on the financial information of previous years; consequently, they are prepared on the basis of the original historical value; nevertheless, the Mexican financial information standards require the acknowledgment of effects of inflation accrued up to December 31, 2007.

Qualified Opinion

In our opinion, except for the lack of acknowledgment of the inflation effects on the financial information, the financial statements referred to above, present fairly, in all the important respects,, the financial position of Mantenimiento y Conservación de Vialidades, S. A. de C. V. at December 31, 2016 and 2015, and the results of its operations, changes in stockholders' equity and cash flows, for the years then ended according to the Mexican Financial Reporting Standards.

Despacho Howard & Wayman, S. C.



C.P.C. Ricardo Jesús Dávila Santamaría
Auditor Partner

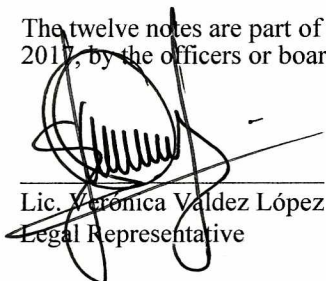
MANTENIMIENTO Y CONSERVACION
DE VIALIDADES, S. A. DE C.V.

BALANCE SHEETS

Amounts expressed in Mexican Pesos.

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
CURRENT ASSETS		
Cash and investments (Note 5)	\$ 10,919,042	\$ 9,632,140
Accounts Receivable (Note 7)	238,695	2,448,450
Taxes to be recovered	522,168	907,135
Related parties (Note 6)	458,848	389,975
Advances paid to suppliers	345,704	399,070
Other assets	<u>48,577</u>	<u>56,456</u>
 Total current assets	 12,533,034	 13,833,226
 REAL ESTATE, MACHINERY AND EQUIPMENT – net (Note 8)	 1,937,863	 1,664,834
 Total assets	 <u>\$ 14,470,897</u>	 <u>\$ 15,498,060</u>
<u>Liabilities and stockholders' equity</u>		
LIABILITIES IN THE SHORT TERM:		
Suppliers	\$ 73,017	\$ 213,168
Creditors	79,735	83,042
Related parties (Note 6)	-	295,726
Other accounts payable and accrued expenses	667,426	420,161
Value added tax payable	<u>63,855</u>	<u>1,396,126</u>
Total liabilities in the short term	884,033	2,408,223
 LONG-TERM LIABILITY		
Deferred Taxes (Note 10)	6,209	9,477
Total liabilities	<u>890,242</u>	<u>2,417,700</u>
 STOCKHOLDERS' EQUITY:		
Capital stock (Note 9)	9,550,000	9,550,000
Income accrued from previous years	3,530,360	3,445,989
Comprehensive income	<u>500,295</u>	<u>84,371</u>
Total stockholders' equity	<u>13,580,655</u>	<u>13,080,360</u>
Total liabilities and stockholders' equity	<u>\$ 14,470,897</u>	<u>\$ 15,498,060</u>

The twelve notes are part of these financial statements which were authorized for their issuance dated February 10, 2017, by the officers or board that sign completely these financial statements and its notes.


 Lic. Yvónica Valdez López
 Legal Representative

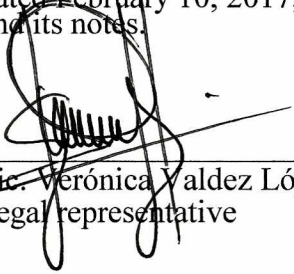
MANTENIMIENTO Y CONSERVACION
DE VIALIDADES, S.A. DE C.V.

STATEMENT OF COMPREHENSIVE INCOME
(NOTE 2)

Amounts expressed in Mexican pesos

	<u>2016</u>	<u>Year ending on</u> <u>December 31</u> <u>2015</u>
Net Sales	53,538,995	52,617,866
Management expenses	3,781,032	4,997,587
Operating expenses	<u>49,543,325</u>	<u>47,761,509</u>
	<u>53,324,357</u>	<u>52,759,096</u>
Operating income (loss)	214,638	(141,230)
Comprehensive financing result:		
Interest gain	<u>215,084</u>	<u>104,510</u>
Income before income tax	429,722	(36,720)
Income tax (Note 10)	<u>322,574</u>	<u>(19,597)</u>
Net Income (loss) for the year	<u>107,148</u>	<u>(17,123)</u>
Other comprehensive income – Net (Note 11)	<u>393,147</u>	<u>101,494</u>
Comprehensive income	<u>\$ 500,295</u>	<u>\$ 84,371</u>
Profit by share (Nota 3):		
Basic profit on ordinary share (Nota 3):		
From continuing operations	<u>\$ 0.0523</u>	<u>\$ 0.0088</u>

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Lic. Verónica Valdez López
Legal representative

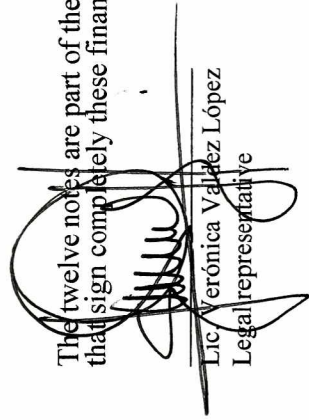
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DE VIALIDADES, S. A. DE C.V.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
BY THE PERIOD ENDING ON DECEMBER 31, 2016 AND 2015

Amounts expressed in Mexican pesos

	<u>Capital stock</u>	<u>Accrued profits (losses) From previous years</u>	<u>Net of the year</u>	<u>Total stockholders' equity</u>
Balances at January 1, 2014	\$ 9,550,000	\$ 3,424,452	\$ 21,537	\$ 12,995,989
Application of 2014 comprehensive income		21,537	(21,537)	-
Comprehensive income			<u>84,371</u>	<u>84,371</u>
Balances at December 31, 2015	9,550,000	3,445,989	84,371	13,080,360
Application of 2015 comprehensive income		84,371	(84,371)	-
Comprehensive income			<u>500,295</u>	<u>500,295</u>
Balances at December 31, 2016	<u>\$ 9,550,000</u>	<u>\$ 3,530,360</u>	<u>\$ 500,295</u>	<u>\$ 13,580,655</u>

The twelve notes are part of these financial statements which were authorized for their issuance dated February 10, 2017, by the officers or board that sign completely these financial statements and its notes.


Lic Verónica Valdez López
Legal representative

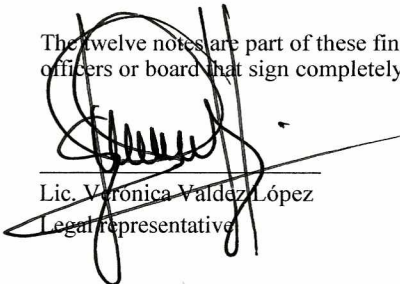
MANTENIMIENTO Y CONSERVACION
DE VIALIDADES, S. A. DE C.V.

CASH FLOWS STATEMENT
(NOTE 2)

Amounts expressed in Mexican pesos

	Year ending on December 31	
	<u>2016</u>	<u>2015</u>
<u>Operating activities:</u>		
Income before income tax	\$ 822,869	\$ 64,774
Investing activities related items:		
Depreciation and amortization	622,931	958,839
Interests in favor	(142,724)	(81,807)
Income from property and equipment	<u>516,810</u>	<u>-</u>
Subtotal of the investing and financing activities related items	1,819,886	941,806
(Decreasing) increasing in receivable and other	2,602,602	187,932
Increasing in related items	(364,599)	(326,004)
Inventory decreasing	53,366	(13,141)
Suppliers Increasing	(1,475,732)	937,444
Income taxes paid	<u>(78,574)</u>	<u>(74,754)</u>
Operating activities net cash flows	<u>2,556,949</u>	<u>1,653,283</u>
<u>Investing activities:</u>		
Charges interest	142,724	81,807
Charges for property and equipment	<u>(1,412,771)</u>	<u>(190,669)</u>
Investing activities net cash flows	<u>(1,288,047)</u>	<u>(108,862)</u>
Exceeding cash to apply in financing activities	1,268,902	1,544,421
Net cash increasing and temporary investment	1,268,902	1,544,421
Cash and temporary investments at the beginning of the year	<u>9,632,140</u>	<u>8,087,719</u>
Cash and temporary investments at year end	<u>\$ 10,901,042</u>	<u>\$ 9,632,140</u>

The twelve notes are part of these financial statements which were authorized for their issuance dated February 10, 2017, by the officers or board that sign completely these financial statements and its notes.



Lic. Verónica Valdez López
Legal Representative

MANTENIMIENTO Y CONSERVACIÓN
DE VIALIDADES, S. A. DE C. V.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Amount expressed in Mexican pesos

NOTE 1 - COMPANY HISTORY AND ACTIVITY:

The company was organized in Querétaro City, on March 1, 2006, under the name of Mantenimiento y Conservación de Vialidades, S. A. de C. V., with a term of 99 years and a corporate domicile in the city of Santiago de Querétaro.

The company's main activity is the provision of information services, administrative, communications, comprehensive maintenance, routine maintenance, periodic maintenance, reconstruction, rehabilitation of bridges, road services, quality control and management of the work on the road, with or without added materials, by others or by self. Technical assistance, business advice and the management and administration of all kinds of businesses, companies or businesses, technology transfer all kinds of products and building systems.

NOTE 2 – BASIS FOR PREPARATION

The accompanying financial statements have been prepared, in a reporting currency equal to that of registration (Mexican currency), without making the conversion to the functional currency, because it was opted for the exception of not converting the, since they will be used exclusively For presentation to the General Meeting of Shareholders and to comply with the legal provisions to which the Company is subject, as an independent legal entity.

The accompanying financial statements at December 31 2016 and 2015, fairly meet the provisions of the MFRS to show a fair presentation of the Company's financial position. The NIF establishes that International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations to International Financial Reporting Standards (INIIF) and the Interpretations Committee (SIC) are Absence of NIF so requires.

According with the provisions in the MFRS B-10 "Inflation Effects" (MFRS B-10), as of January 1, 2008 the Mexican economy is not an inflationary environment, since there has been a cumulative inflation below 26% (threshold to define that an economy should be considered as

inflationary) in the most recent three year period. Therefore, since that date the recognition of the effects of inflation on financial reporting has been suspended. Consequently, the figures as of December 31, 2016 and 2015 of the accompanying financial statements are presented in historical pesos, modified by the effects of inflation on the financial information recognized up to December 31, 2007.

The inflation rates are shown below:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Of the year	3.36%	2.13%
Accrued during the last three years	9.57%	10.18%

Because the recording currency, the functional currency and the reporting currency are the Mexican peso, it was not necessary to perform any conversion process.

The accompanying non consolidated financial statements and their notes were authorized, for their issuance on February 10, 2017 by Veronica Valdes Lopez, Legal Representative, with legal capacity to authorize the financial statements and their notes.

NOTE 3- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting policies are summarized as follows, which have been consistently applied in the reporting years, unless otherwise indicated.

The MFRS require the use of some critical accounting estimates in the preparation of the financial statements. Also, Management judgment is required in the process of defining the Company's accounting policies.

- a. Cash and cash equivalents, including cash balances, bank deposits and other highly liquid investments with minor risks by changes in value.
- b. At December 31, 2016 and 2015 the inventories and sales cost are expressed at its historical cost determined through the by the first in-first out method. Values determined like this do not exceed its market value.
- c. The property, plant and equipment, including the financial leasing acquisitions, are expressed at their historical cost.



Depreciation is calculated by the straight line method based on the estimated useful lives of the assets applied to the property, plant and equipment values, including the acquired under financial leasing. (See Note 8).

- d. Prepayments represent those expenses incurred by the Company in which the benefits and risks inherent in the assets to be acquired or the services to be received have not been transferred. Prepayments are recorded at cost and presented in the statement of financial position as current or non-current assets, depending on the item of the target item.
- e. The liabilities' provisions represent present obligations for past events where the outflow of economic resources is possible. These provisions have been recorded based on management's best estimation.
- f. Deferred income tax is recorded based on the comprehensive assets and liabilities method, which consists of recognizing a deferred tax for all temporary differences between the accounting and tax values of the assets and liabilities that are expected to materialize in the future, At the rates enacted in the tax provisions in force at the date of the financial statements.
- g. The Capital Stock, and the retained deficit are expressed at modified historical cost.
- h. The comprehensive income is composed by the net profit, as well as by such other entries that due to specific provisions are reflected in the stockholders' equity and are no capital contributions, reductions or distributions. The amounts of 2016 and 2015 integral profit are stated in modified historical pesos.
- i. The income by the sale of maintenance services of roads and highways are recognized in the income statement when the overall following requirements are met: a) the goods' risk and benefits were transferred to the buyer and there is no significant control on any of them, b) the amount of the revenue, incurred costs or to be incurred in are reliably determined and c) the Company is likely to receive economical benefits associated to the sale.
- j. Earnings per basic ordinary share is the result of dividing the net earning of the year by the weighted average of the current shares during 2016 and 2015.
- k. Exchange differences are recorded initially in the currency of registration, applying the exchange rates prevailing at the date of their operation. Assets and liabilities denominated in such currency are converted at the exchange rate prevailing on the date of the financial position. The differences generated by fluctuations in the exchange rates between the dates of the transactions and those of their settlement or valuation at year-end are recognized in profit or loss as a component of the Comprehensive Financing Result



NOTE 4 - FOREIGN CURRENCY POSITION:

- a. At December 31, 2016 and 2015, the Company had the following US dollar monetary, as shown as follows::

	Amounts in foreign currency	
	<u>2016</u>	<u>2015</u>
Assets	Dlls 25,255	Dlls 1,232

At December 31, 2016 and 2015 the exchange rate was \$ 20.66 and \$ 17.34 per dollar, respectively. At February 10, 2017, date of issuance of these audited financial statements, the exchange rate was \$ 20.41 per US dollar.

NOTE 5 - CASH, BANKS AND TEMPORARY INVESTMENTS:

The cash and cash equivalent balance at December 31, 2016 and 2015 is mainly comprised by cash at bank including foreign currency amounts, which are of high liquidity to and are subject to non significant value change risks. The integration of such balance is shown as follows:

	December 31	
	<u>2016</u>	<u>2015</u>
Cash	\$ 3,414	\$ -
Bank deposits	715,650	232,140
Investments with maturity	<u>10,199,978</u>	<u>9,400,000</u>
Non-restricted total	<u>10,919,042</u>	<u>9,632,140</u>
Total cash	<u>\$ 10,919,042</u>	<u>\$ 9,632,140</u>



NOTE 6 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES:

The main balances with related parties at December 31, 2016 and 2015 are shown as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Receivables		
Agacel Agregados y Asfaltos, S. A de C. V.	\$ 155,021	\$ 329,975
ELSAMEX-ITNL JVCA	243,827	-
Conservación de Infraestructuras de México, S. A. de C. V.	<u>60,000</u>	<u>60,000</u>
	<u>\$ 458,848</u>	<u>\$ 389,975</u>

Payables

Agacel Agregados y Asfaltos, S. A de C. V.	\$ -	\$ 162,226
ESM Mantenimiento Integral, S. A.	<u>-</u>	<u>133,500</u>
	<u>\$ -</u>	<u>\$ 295,726</u>

During the years ended at December 31, 2016 and 2015, the Company carried out the following operations with related parties at their market value.

	<u>Year ending on</u>	
	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Income:		
Net sales of services	<u>\$ 23,529,558</u>	<u>\$ 14,160,886</u>
Expenses:		
Purchases of raw material	<u>\$ 6,163,184</u>	<u>\$ 2,744,483</u>

NOTE 7 – ACCOUNTS RECEIVABLE:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Clients	\$ 234,946	\$ 2,441,450
Sundry debtors	<u>3,749</u>	<u>6,999</u>
	<u>\$ 238,695</u>	<u>\$ 2,448,450</u>

NOTE 8 - PROPERTY, AND EQUIPMENT:

	<u>December 31,</u>		Annual depreciation <u>rate</u>
	<u>2016</u>	<u>2015</u>	
Machinery and equipment	\$ 2,761,279	\$ 2,698,736	10%
Transportation equipment	4,259,715	4,659,404	25%
Computer equipment	547,712	547,462	30%
Furniture and office equipment	<u>284,700</u>	<u>281,636</u>	10%
	7,880,406	8,187,238	
Cumulative depreciation	<u>(5,942,543)</u>	<u>(6,522,404)</u>	
	<u>\$ 1,937,863</u>	<u>\$ 1,664,834</u>	



NOTE 9 - STOCKHOLDERS' EQUITY

At December 31, 2016 and 2015, the capital stock is integrated as follows:

<u>Number of shares</u>	<u>Description</u>	<u>Amount</u>
	Represents the fixed portion, with no right of withdrawal	
32,000	Elsamex Internacional, S. L.	\$ 32,000
18,000	Agacel, Agregados y Asfaltos, S. A de C. V.	18,000
	Represents the variable portion of free subscription	
6,080,000	Elsamex Internacional, S. L.	6,080,000
<u>3,240,000</u>	Agacel, Agregados y Asfaltos, S. A. de C. V.	<u>3,420,000</u>
<u>9,550,000</u>	Capital stock in purchasing power pesos as of December 31, 2016	<u>\$ 9,550,000</u>

The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to 20% of the capital stock.

Dividends paid are not subject to income tax if paid from the net tax profit account (CUFIN by its Spanish acronym) (and, will be taxed at a rate that fluctuates between 4.62% and 7.69% if they are paid from the reinvested vet tax profit account). Any dividends paid in excess of this account will cause a tax equivalent to 42.869% if they are paid on 2014. The current tax is payable by the Company and may be credited against its income tax in the same year or the following two years or in its case against the Flat tax of the period. Dividends paid coming from profits previously taxed by income tax are not subject to tax withholding or additional tax payment.

In the event of a capital reduction, the provisions of the Income Tax Law arrange any excess of Stockholders' equity over capital contributions, is accounted with the same tax treatment as dividends.



NOTE 10 - INCOME TAX AND FLAT TAX

a. Income Tax:

During October 2013 the Chamber of Senators and Representatives approved the issuance of a new Law on Income Tax (new ITL) which came into force on January 1, 2014, repealing the Income Tax Law issued on January 1 2002 (previous ITL). The new ITL captures the essence of the previous ITL; however, makes significant changes among which we can highlight the following :

- i. Limited deductions in contributions to pension funds and exempt wages, car lease, consumption in restaurants and in social security contributions, also eliminates the immediate deduction of fixed assets [and exploration expenditures in the mining sector].
- ii. Amendment mechanics to accumulate the income from alienation forward and generalizes the method to determine the gain on disposal of shares.
- iii. Modifies the procedure for determining the tax base for the Employees' Statutory Profit Sharing (ESPS), provides the mechanism to determine the opening balance of the capital account of contributions (CUCA by its Spanish acronym) and CUFIN and establishes a new mechanism for recovery Tax Assets (TA).
- iv. Establishes an income tax rate for 2016 and the following years will be of 30%.
- v. The income tax provision is analyzed as follows:

	<u>Year ending on</u> <u>December 31,</u>	
	2016	2015
Income tax payable	\$ 325,842	\$ 7,095
Income tax deferred	<u>(3,268)</u>	<u>(26,692)</u>
Total provision	<u>\$ 322,574</u>	<u>\$ (19,597)</u>



NOTE 11 - OTHER COMPREHENSIVE INCOME:

The other expenses and incomes accrued are composed as follows:

	<u>2016</u>	<u>2015</u>
Profit in fixed asset sales	516,810	-
Other (expenses)	<u>(123,663)</u>	<u>101,494</u>
Total other income (expenses)	<u>\$ 393,147</u>	<u>\$ 101,494</u>

NOTE 12 - NEW ACCOUNTING PRONOUNCEMENTS:

The following describes a series of NIFs issued by the CINIF during December 2013 and 2014, which will enter into force in the year indicated. It is considered that such FRS will not have a material effect on the financial information presented by the Company.

2016:

MFRS D-3 "Employee Benefits". It establishes the valuation, presentation and disclosure rules for the initial and subsequent recognition of short- and long-term liabilities for termination and post-employment benefits. The concept of remeasurement of defined benefit assets or liabilities is established and the possibility of deferring the recognition of actuarial gains and losses directly to results, according to their accrual, is eliminated. Therefore, these actuarial gains and losses must be recognized immediately in the Other comprehensive income (ORI), requiring their recycling after the net profit or loss. Early application is allowed as of January 1, 2015.

2017:

IFRS-15 "Income from contracts with customers", which replaces the following IAS, INIIF and SIC: IAS-11 "Construction contracts", IAS 18 "Revenue from ordinary activities", INIIF - 13 "Customer loyalty programs INIIF - 15 "Agreements for the construction of real estate", INIIF - 18 "Transfer of assets from clients" and SIC - 31 "Revenues - exchange of advertising services", effective as of the years beginning on January 1 Of 2017, allowing its early application.


Veronica Valdez López
Legal Representative
