

MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 6 DATED AUGUST 16, 2019
TO THE PROSPECTUS DATED APRIL 19, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 19, 2019, as supplemented by Supplement No. 1 dated April 26, 2019, Supplement No. 2 dated May 9, 2019, Supplement No. 3 dated May 16, 2019, Supplement No. 4 dated June 3, 2019, and Supplement No. 5 dated July 29, 2019, relating to our offering of up to \$990,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 6 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 6 is to disclose:

- the filing of Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2018; and
- the filing of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.

Form 10-K/A

On August 9, 2019, we filed Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2018 (the “Form 10-K/A”) with the SEC. A copy of the Form 10-K/A (without exhibits) is attached to this supplement as Appendix A.

Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2019

On August 14, 2019, we filed our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 with the SEC. A copy of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (without exhibits) is attached to this supplement as Appendix B.

EXHIBIT A

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to .

Commission file number 000-55778

MOODY NATIONAL REIT II, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

6363 Woodway Drive, Suite 110
Houston, Texas
(Address of principal executive offices)

47-1436295
(I.R.S. Employer
Identification No.)

77057
(Zip Code)

(713) 977-7500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

Common Stock, \$0.01 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There is no established market for the registrant's shares of common stock. The registrant is currently conducting an ongoing initial public offering of its Class A shares, Class I shares and Class T shares of common stock pursuant to a Registration Statement on Form S-11, which shares are being sold at \$23.19 per share. The registrant was formed on July 25, 2014, and commenced its initial public offering on January 20, 2015. There were 4,750,286 shares of common stock held by non-affiliates at June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 12, 2019, there were 11,203,284 shares of the Registrant's common stock issued and outstanding, consisting of 10,797,933 shares of Class A common stock, 89,423 shares of Class I common stock, and 315,928 shares of Class T common stock.

EXPLANATORY NOTE

Moody National REIT II, Inc. (the “Company”) filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the “Original Filing”) with the Securities and Exchange Commission (the “SEC”) on March 29, 2019. The Company is filing this Amendment No. 1 to the Original Filing (this “Amendment”) with the SEC for the sole purpose of revising the Report of Independent Registered Public Accounting Firm of Frazier & Deeter, LLC, the Company’s independent auditors (the “Report”), contained in Part IV, Item 15 of the Original Filing. The revised Report includes a statement regarding the length of Frazier & Deeter, LLC’s tenure as the Company’s independent auditors that was inadvertently omitted from the version of the Report included in the Original Filing. The inclusion of the inadvertently omitted tenure statement does not in any way change the conclusions expressed by Frazier & Deeter, LLC in the Report.

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, new certifications by the Company’s principal executive officer and the principal financial officer, as required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, each dated as of the filing date of this Amendment, are included as Exhibits to this Amendment.

Except as described above, this Amendment does not reflect events that may have occurred after the date of the Original Filing and does not revise, supplement or supersede in any way the disclosures made in the Original Filing. This Amendment should be read in conjunction with the Original Filing and with the Company’s subsequent filings with the SEC.

MOODY NATIONAL REIT II, INC.
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PART IV

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PART IV

ITEM 15. *Exhibits and Financial Statement Schedules*

The following documents are filed as part of this Annual Report:

(a) *List of Documents Filed*

- (1) The financial statements contained herein begin on page F-1 hereof
- (2) Financial Statement Schedules

Schedule III – Real Estate Assets and Accumulated Depreciation is set forth on page F-30 hereof.

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable and therefore have been omitted.

- (3) Exhibits

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of November 16, 2016, among Moody National REIT II, Inc., Moody National Operating Partnership II, LP, Moody National Advisor II, LLC, Moody Merger Sub, LLC, Moody National REIT I, Inc., Moody National Operating Partnership I, LP and Moody National Advisor I, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed November 17, 2016)
2.2	Amendment No. 1, dated as of August 9, 2017 to the Agreement and Plan of Merger, dated as of November 16, 2017, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP, Moody Merger Sub, LLC, Moody National Advisor II, LLC, Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., and Moody National Advisor I, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on August 10, 2017)
3.1	Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Registration Statement (defined below) filed January 12, 2015 (“Pre-Effective Amendment No. 3”))
3.2	Articles of Amendment to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on June 13, 2017)
3.3	Articles Supplementary to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed on June 12, 2017)
3.4	Bylaws of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form S-11 (File No. 333-198305) filed on August 22, 2014 (the “Registration Statement”))
4.1	Form of Subscription Agreement (included in Appendix B to prospectus and incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 2 to the Registration Statement filed January 15, 2016 (“Post-Effective Amendment No. 2”))
4.2	Second Amended and Restated Distribution Reinvestment Plan of Moody National REIT II, Inc. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 13, 2017)
10.1	Amended and Restated Limited Partnership Agreement of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 26, 2016 (the “May 26, 2016 Form 8-K”))
10.2	Moody National REIT II, Inc. 2015 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to Pre-Effective Amendment No. 3)
10.3	Moody National REIT II, Inc. Independent Directors Compensation Plan (incorporated by reference to Exhibit 10.5 to Pre-Effective Amendment No. 3)
10.4	Assignment Agreement, dated September 25, 2015, by and between Moody National REIT I, Inc. and Moody National REIT II, Inc. (incorporated by reference to the Company’s Quarterly Report on Form 10-Q filed with the SEC on November 16, 2015)
10.5	Agreement of Purchase and Sale, made as of May 11, 2015, by and between Mueller Hospitality, LP and Moody National REIT I, Inc. (incorporated by reference to Exhibit 10.7 to Post-Effective Amendment No. 2)
10.6	Assignment and Assumption of Agreement of Purchase and Sale, dated as of October 15, 2015, by and between Moody National REIT II, Inc. Moody National Lancaster-Austin Holding, LLC and Moody National Lancaster-Austin MT, LLC (incorporated by reference to Exhibit 10.8 to Post-Effective Amendment No. 2)

- 10.7 Hotel Lease Agreement, effective October 15, 2015, between Moody National Lancaster-Austin Holding, LLC and Moody National Lancaster-Austin MT, LLC (incorporated by reference to Exhibit 10.9 to Post-Effective Amendment No. 2)
- 10.8 Hotel Management Agreement, effective October 15, 2015, between Moody National Lancaster-Austin, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.10 to Post-Effective Amendment No. 2)
- 10.9 Relicensing Franchise Agreement, dated October 15, 2015, between Marriott International, Inc. and Moody National Lancaster-Austin MT, LLC (incorporated by reference to Exhibit 10.11 to Post-Effective Amendment No. 2)
- 10.10 Loan Agreement, dated as of October 15, 2015 between Moody National Lancaster-Austin Holdings, LLC and KeyBank National Association (incorporated by reference to Exhibit 10.12 to Post-Effective Amendment No. 2)
- 10.11 Guarantee Agreement, dated as of October 15, 2015 by and among Brett C. Moody, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.13 to Post-Effective Amendment No. 2)
- 10.12 Environmental Indemnity Agreement, dated as of October 15, 2015, by and among Moody National Lancaster-Austin Holding, LLC, Brett C. Moody, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.14 to Post-Effective Amendment No. 2)
- 10.13 Assignment and Assumption of Agreement of Purchase and Sale, dated January 28, 2016, by and between Moody National Companies, L.P. and Moody National REIT II, Inc. (incorporated by reference to Exhibit 10.16 to Post-Effective Amendment No. 3 to Moody National REIT II, Inc.'s Registration Statement on Form S-11 (File No. 333-198305) filed on April 21, 2016 ("Post-Effective Amendment No. 3"))
- 10.14 Agreement of Purchase and Sale, dated as of October 26, 2015, by and among Moody National SHS Seattle MT, LLC, certain Fee Owners, and Moody National Companies, LP (incorporated by reference to Exhibit 10.17 to Post-Effective Amendment No. 3)
- 10.15 Assignment and Assumption of Agreement of Purchase and Sale, dated May 24, 2016, by and between Moody National REIT II, Inc., Moody National Yale-Seattle Holding, LLC and Moody National Yale-Seattle MT, LLC (incorporated by reference to Exhibit 10.2 to the May 26, 2016 Form 8-K)
- 10.16 Hotel Lease Agreement, effective May 24, 2016, between Moody National Yale-Seattle Holding, LLC and Moody National Yale-Seattle MT, LLC (incorporated by reference to Exhibit 10.3 to the May 26, 2016 Form 8-K)
- 10.17 Hotel Management Agreement, effective May 24, 2016, between Moody National Yale-Seattle MT, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.4 to the May 26, 2016 Form 8-K)
- 10.18 Promissory Note, dated May 24, 2016, by Moody National Yale-Seattle Holding, LLC in favor of KeyBank National Association (incorporated by reference to Exhibit 10.5 to the May 26, 2016 Form 8-K)
- 10.19 Loan Agreement, dated as of May 24, 2016, between Moody National Yale-Seattle Holding, LLC and KeyBank National Association (incorporated by reference to Exhibit 10.6 to the May 26, 2016 Form 8-K)
- 10.20 Guaranty of Recourse Obligations Agreement, made as of May 24, 2016 by and among Brett C. Moody, Moody National Operating Partnership II, LP, Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.7 to the May 26, 2016 Form 8-K)
- 10.21 Guaranty of Payment Agreement, made as of May 24, 2016 by and among Brett C. Moody, Moody

National Operating Partnership II, LP, Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.8 to the May 26, 2016 Form 8-K)

- 10.22 Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of May 24, 2016, by and among Moody National Yale-Seattle Holding, LLC, Old Republic Title, Ltd. For the benefit of KeyBank National Association (incorporated by reference to Exhibit 10.9 to the May 26, 2016 Form 8-K)
- 10.23 Environmental Indemnity Agreement, made as of May 24, 2016, by and among Moody National Yale-Seattle Holding, LLC, Brett C. Moody, Moody National Operating Partnership II, LP, Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.10 to the May 26, 2016 Form 8-K)
- 10.24 Relicensing Franchise Agreement, dated as of May 24, 2016, between Marriott International, Inc. and Moody National Yale-Seattle MT, LLC (incorporated by reference to Exhibit 10.11 to the May 26, 2016 Form 8-K)
- 10.25 Promissory Note, dated September 20, 2016, by Moody National Yale-Seattle Holding, LLC in favor of KeyBank National Association (incorporated by reference to Exhibit 10.1 to Moody National REIT II, Inc.'s Current Report on Form 8-K, filed on September 26, 2016 (the "September 26, 2016 Form 8-K"))
- 10.26 Loan Agreement, dated as of September 20, 2016, between Moody National Yale-Seattle Holding, LLC and KeyBank National Association (incorporated by reference to Exhibit 10.2 to the September 26, 2016 Form 8-K)
- 10.27 Guaranty Agreement, made as of September 20, 2016, by Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.3 to the September 26, 2016 Form 8-K)
- 10.28 Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of September 20, 2016, by and among Moody National Yale-Seattle Holding, LLC, Old Republic Title, Ltd., for the benefit of KeyBank National Association (incorporated by reference to Exhibit 10.4 to the September 26, 2016 Form 8-K)
- 10.29 Environmental Indemnity Agreement, made as of September 20, 2016, by and among Moody National Yale-Seattle Holding, LLC, Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.5 to the September 26, 2016 Form 8-K)
- 10.30 First Amendment to Hotel Lease Agreement, effective as of September 20, 2016, between Moody National Yale-Seattle Holding, LLC and Moody National Yale-Seattle MT, LLC (incorporated by reference to Exhibit 10.6 to the September 26, 2016 Form 8-K)
- 10.31 Amended and Restated Advisory Agreement, dated as of November 16, 2016, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP and Moody National Advisor II, LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on November 17, 2016)
- 10.32 Termination Agreement, dated as of November 16, 2016, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC, Moody National Realty Company, L.P., Moody OP Holdings I, LLC and Moody National REIT II, Inc. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on November 17, 2016)
- 10.33 Second Amended and Restated Advisory Agreement, dated as of June 12, 2017, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP and Moody National Advisor II, LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 13, 2017)
- 10.34 Second Amended and Restated Limited Partnership Agreement of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on June 13, 2017)

- 10.35 Moody National REIT II, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on June 13, 2017)
- 10.36 Promissory Note, dated August 15, 2017, by Moody National International-Fort Worth Holding, LLC in favor of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on August 18, 2017)
- 10.37 Promissory Note, dated September 6, 2017, by Moody National 1 Polito Lyndhurst Holding, LLC in favor of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 12, 2017)
- 10.38 Term Loan Agreement, dated as of September 27, 2017 by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 28, 2017)
- 10.39 Guaranty dated as of September 27, 2017 and executed and delivered for KeyBank National Association by Moody National REIT II, Inc., MN REIT II TRS, Inc., Moody National 1 Polito Lyndhurst Holding, LLC, Moody National International-Fort Worth Holding, LLC, MN Lyndhurst Venture, LLC and MN Fort Worth Venture, LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on September 28, 2017)
- 10.40 Environmental Indemnity given as of September 27, 2017 by Moody National REIT II, Inc., MN REIT II TRS, Inc., Moody National Operating Partnership II, LP, Moody National 1 Polito Lyndhurst Holding, LLC, Moody National International-Fort Worth Holding, LLC, MN Lyndhurst Venture, LLC and MN Fort Worth Venture, LLC (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on September 28, 2017)
- 10.41 Third Amended and Restated Limited Partnership Agreement of Moody National Operating Partnership II, LP dated as of September 27, 2017 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on September 28, 2017)
- 10.42 Letter Agreement, dated as of December 27, 2017, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 2, 2018)
- 10.43 Amendment No. 1 to the Second Amended and Restated Advisory Agreement, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP and Moody National Advisor II, LLC dated as of January 16, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 16, 2018)
- 10.44 Amendment No. 2 to the Second Amended and Restated Dealer Manager Agreement by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP, Moody Securities, LLC and Moody National Advisor II, LLC dated as of March 19, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 20, 2018)
- 10.45 Letter Agreement, dated as of March 28, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc., MN REIT II TRS, Inc., Keybank National Association and certain other parties (incorporated by reference to Exhibit 10.46 to the Annual Report on Form 10-K filed on April 2, 2018)
- 10.46 Second Master Amendment to Loan Documents, dated as of October 24, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on October 30, 2018)
- 10.47 Letter Agreement, dated as of October 24, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on October 30, 2018)
- 10.48 Promissory Note, dated as of October 24, 2018, by Moody National Operating Partnership II, LP and Moody National REIT II, Inc. as makers, in favor of Green Bank, N.A. as payee (incorporated by

reference to Exhibit 10.3 to the Current Report on Form 8-K filed on October 30, 2018)

- 10.49 Loan Agreement, dated as of October 24, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and Green Bank, N.A. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on October 30, 2018)
 - 10.50 Security Agreement, dated as of October 24, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and Green Bank, N.A. (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on October 30, 2018)
 - 21.1 Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to Post-Effective Amendment No. 8 to the Registration Statement on Form S-11 (Registration No. 333-198305), filed on October 31, 2017)
 - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
 - 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
 - 101.INS XBRL Instance Document
 - 101.SCH XBRL Taxonomy Extension Schema Document
 - 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
 - 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
 - 101.LAB XBRL Taxonomy Extension Label Linkbase Document
 - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOODY NATIONAL REIT II, INC.

Date: August 9, 2019

By: /s/ Brett C. Moody
Brett C. Moody
Chief Executive Officer and President

Moody National REIT II, Inc.
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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
Moody National REIT II, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Moody National REIT II, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes and financial statement schedule III (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Frazier & Deeter, LLC

Atlanta, Georgia
March 29, 2019

We have served as the Company’s auditors since 2014.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	December 31,	
	2018	2017
ASSETS		
Investments in hotel properties, net	\$ 393,140	\$ 396,635
Cash and cash equivalents	8,990	8,214
Restricted cash	10,204	13,521
Accounts receivable, net of allowance for doubtful accounts of \$33 at December 31, 2018 and 2017	711	1,383
Mortgage note receivable from related party	—	11,200
Notes receivable from related parties	6,750	11,250
Prepaid expenses and other assets	3,014	3,027
Deferred franchise costs, net of accumulated amortization of \$132 and \$50 at December 31, 2018 and 2017, respectively	934	1,016
Due from related parties	1,159	230
Total Assets	\$ 424,902	\$ 446,476
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized debt issuance costs of \$3,463 and \$4,838 as of December 31, 2018 and 2017, respectively	\$ 227,174	\$ 264,336
Accounts payable and accrued expenses	8,089	8,425
Due to related parties	—	569
Dividends payable	1,744	1,585
Operating partnership distributions payable	47	47
Total Liabilities	237,054	274,962
Special Limited Partnership Interests	1	1
Commitments and Contingencies		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value per share; 1,000,000 shares authorized, 10,636 and 8,693 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	106	87
Additional paid-in capital	237,216	193,865
Accumulated deficit	(54,674)	(28,501)
Total stockholders' equity	182,648	165,451
Noncontrolling interests in Operating Partnership	5,199	6,062
Total Equity	187,847	171,513
TOTAL LIABILITIES AND EQUITY	\$ 424,902	\$ 446,476

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years ended December	
	31,	
	2018	2017
Revenue		
Room revenue.....	\$ 74,782	\$ 33,102
Other hotel revenue	4,884	2,324
Total hotel revenue.....	79,666	35,426
Interest income from notes receivable	1,175	1,143
Total revenue.....	80,841	36,569
Expenses		
Hotel operating expenses.....	50,182	21,404
Property taxes, insurance and other	5,542	2,225
Depreciation and amortization.....	12,166	4,749
Acquisition expenses	—	11,830
Corporate general and administrative	6,503	3,668
Total expenses.....	74,393	43,876
Operating income (loss)	6,448	(7,307)
Interest expense and amortization of debt issuance costs	15,960	7,072
Loss before income taxes	(9,512)	(14,379)
Income tax expense	158	666
Net loss	(9,670)	(15,045)
Net loss attributable to noncontrolling interests in Operating Partnership.....	309	260
Net loss attributable to common stockholders	\$ (9,361)	\$ (14,785)
Per-share information – basic and diluted:		
Net loss attributable to common stockholders	\$ (0.98)	\$ (2.70)
Dividends declared	\$ 1.75	\$ 1.75
Weighted average common shares outstanding	9,578	5,480

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF EQUITY
Years ended December 31, 2018 and 2017
(in thousands)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Addi- al Paid-In Capital</u>	<u>Accumu- lated Deficit</u>	<u>Noncontrolling Interests in Operating Partnership</u>		<u>Total Equity</u>
	<u>Number of Shares</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>Par Value</u>			<u>Number of Units</u>	<u>Value</u>	
Balance at December 31, 2016.....	—	\$ —	3,173	\$ 32	\$ 68,571	\$ (4,154)	18	\$ 380	\$ 64,829
Issuance of common stock, net of offering costs.....	—	—	1,818	18	39,925	—	—	—	39,943
Redemption of common stock.....	—	—	(37)	—	(897)	—	—	—	(897)
Issuance of common stock in connection with Merger.....	—	—	3,625	36	83,592	83,628	—	—	—
Issuance of operating partnership units, net of offering costs.....	—	—	—	—	—	—	298	6,111	6,111
Issuance of common stock pursuant to dividend reinvestment plan.....	—	—	99	1	2,446	—	—	—	2,447
Stock-based compensation.....	—	—	15	228	—	—	—	228	—
Net loss.....	—	—	—	—	—	(14,785)	—	(260)	(15,045)
Dividends and distributions declared.....	—	—	—	—	—	(9,562)	—	(169)	(9,731)
Balance at December 31, 2017.....	—	—	8,693	87	193,865	(28,501)	316	6,062	171,513
Issuance of common stock, net of offering costs.....	—	—	1,884	18	41,897	—	—	—	41,915
Redemption of common stock.....	—	—	(110)	(1)	(2,623)	—	—	—	(2,624)
Issuance of common stock pursuant to dividend reinvestment plan.....	—	—	159	2	3,716	—	—	—	3,718
Stock-based compensation.....	—	—	10	—	361	—	—	—	361
Net loss.....	—	—	—	—	—	(9,361)	—	(309)	(9,670)
Dividends and distributions declared.....	—	—	—	—	—	(16,812)	—	(554)	(17,366)
Balance at December 31, 2018.....	—	\$ —	10,636	\$ 106	\$ 237,216	\$ (54,674)	316	\$ 5,199	\$ 187,847

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December	
	31,	
	2018	2017
Cash flows from operating activities		
Net loss	\$ (9,670)	\$ (15,045)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,166	4,749
Amortization of debt issuance costs	1,973	794
Deferred income tax expense (benefit)	—	610
Stock-based compensation	361	228
Changes in operating assets and liabilities:		
Accounts receivable	672	181
Prepaid expenses and other assets	13	176
Accounts payable and accrued expenses	(336)	(2,787)
Due to related parties	(919)	485
Net cash provided by (used in) operating activities	4,260	(10,609)
Cash flows from investing activities		
Repayment of mortgage note receivable from related party	11,200	—
Due to related parties	—	2,000
Repayment of notes receivable from related parties	4,500	—
Origination of notes receivable from Moody I	—	(37,754)
Improvements and additions to hotel properties	(8,588)	(3,188)
Acquisition of Moody I, net of cash acquired	—	(38,771)
Net cash provided by (used in) investing activities	7,112	(77,713)
Cash flows from financing activities		
Proceeds from issuance of common stock	44,027	46,564
Redemptions of common stock	(2,624)	(898)
Offering costs paid	(2,692)	(12,663)
Dividends paid	(12,935)	(5,981)
Operating partnership distributions paid	(554)	(166)
Proceeds from notes payable	16,000	70,000
Repayment of notes payable	(54,537)	(3,547)
Payment of debt issuance costs	(598)	(4,700)
Net cash provided by (used in) financing activities	(13,913)	88,609
Net change in cash, cash equivalents and restricted cash	(2,541)	287
Cash, cash equivalents and restricted cash at beginning of year	21,735	21,448
Cash, cash equivalents and restricted cash at end of year	\$ 19,194	\$ 21,735
Supplemental Disclosure of Cash Flow Activity		
Interest paid	\$ 14,166	\$ 6,022
Income tax paid	\$ 290	\$ —
Supplemental Disclosure of Non-Cash Financing Activity		
Increase (decrease) in accrued offering costs due to related party	\$ (580)	\$ 960
Issuance of common stock from dividend reinvestment plan	\$ 3,718	\$ 2,447
Issuance of common stock in connection with Merger	\$ —	\$ 90,632
Issuance of operating partnership units in connection with Merger	\$ —	\$ 6,111
Assumption of notes payable in connection with Merger	\$ —	\$ 132,745
Repayment of notes receivable from Moody I in connection with Merger	\$ —	\$ 37,754
Dividends payable	\$ 1,744	\$ 1,585
Operating partnership distribution payable	\$ 47	\$ 47

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Organization

As discussed in Note 6, “Equity,” Moody National REIT II, Inc. (the “Company”) was initially capitalized by Moody National REIT Sponsor, LLC (the “Sponsor”). The Company’s fiscal year end is December 31.

As of December 31, 2018, the Company owned (1) interests in fourteen hotel properties located in six states comprising a total of 1,941 rooms, and (2) a loan with a current principal amount of \$6,750,000 originated to an affiliate of Sponsor used to acquire a commercial property located in Katy, Texas. For more information on the Company’s real estate investments, see Note 3, “Investment in Hotel Properties” and Note 4, “Notes Receivable from Related Parties.”

On January 20, 2015, the Securities and Exchange Commission (the “SEC”) declared the Company’s registration statement on Form S-11 effective, and the Company commenced its initial public offering, of up to \$1,100,000,000 in shares of common stock consisting of up to \$1,000,000,000 in shares of the Company’s common stock offered to the public, and up to \$100,000,000 in shares offered to the Company’s stockholders pursuant to its distribution reinvestment plan (the “DRP”).

On June 26, 2017, the SEC declared effective the Company’s post-effective amendment to its registration statement for the Offering, which reallocated the Company’s shares of common stock as Class A common stock, \$0.01 par value per share (“Class A Shares”), Class D common stock, \$0.01 par value per share (“Class D Shares”), Class I common stock, \$0.01 par value per share (“Class I Shares”), and Class T common stock, \$0.01 par value per share (“Class T Shares” and, together with the Class A Shares, the Class D Shares and the Class I Shares, the “Shares”) to be sold on a “best efforts” basis. On January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Offering; provided, however that the Advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through an increased acquisition fee, or “Contingent Advisor Payment,” as described in Note 7, “Related Party Arrangements.”

The Company is currently offering the Shares (i) to the public in the Company’s primary offering at a purchase price of \$23.19 per share, which is equal to the estimated net asset value (“NAV”) per share for each class as of December 31, 2017, and (ii) to the Company’s stockholders pursuant to the DRP at a purchase price of \$23.19 per share, which is equal to the estimated NAV per share for each class as of December 31, 2017. On March 14, 2019, the Company’s board of directors determined an estimated NAV per share of all classes of the Company’s common stock of \$23.32 per share as of December 31, 2018.

On January 18, 2018, the Company filed a registration statement on Form S-11 (Registration No. 333-222610) registering \$990,000,000 in any combination of the Shares to be sold on a “best efforts” basis in the Company’s follow-on public offering. The SEC declared the registration statement effective on July 19, 2018. The Company will continue to offer Shares in the follow-on offering on a continuous basis until July 19, 2021, subject to extension for an additional year by our board of directors.

As of December 31, 2018, the Company had received and accepted investors’ subscriptions for and issued 7,011,982 shares in the Company’s initial public offering and follow-on offering, excluding shares issued in connection with the Company’s merger with Moody National REIT I, Inc. and including 292,204 shares pursuant to the DRP, resulting in gross offering proceeds of \$166,178,977. As of December 31, 2018, the Company had received and accepted investors’ subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with the Company’s merger with Moody National REIT I, Inc. and including 214,764 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of \$147,415,625 for the initial public offering. As of December 31, 2018, the Company had received and accepted investors’ subscriptions for and issued 885,989 shares in the follow-on offering, including 77,440 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of \$18,763,352 for the follow-on offering.

The Company’s advisor is Moody National Advisor II, LLC (the “Advisor”), a Delaware limited liability company and an affiliate of the Sponsor. Pursuant to an advisory agreement among the Company, the OP (defined below) and the Advisor (the “Advisory Agreement”), and subject to certain restrictions and limitations therein, the Advisor is responsible for managing the Company’s affairs on a day-to-day basis and for identifying and making acquisitions and investments on behalf of the Company.

Substantially all of the Company’s business is conducted through Moody National Operating Partnership II, LP, a Delaware limited partnership (the “OP”). The Company is the sole general partner of the OP. The initial limited partners of the OP were Moody OP Holdings II, LLC, a Delaware limited liability company and a wholly owned

MOODY NATIONAL REIT II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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subsidiary of the Company (“Moody Holdings II”), and Moody National LPOP II, LLC (“Moody LPOP II”), an affiliate of the Advisor. Moody Holdings II initially invested \$1,000 in the OP in exchange for limited partnership interests, and Moody LPOP II has invested \$1,000 in the OP in exchange for a separate class of limited partnership interests (the “Special Limited Partnership Interests”). As the Company accepts subscriptions for shares of common stock, it transfers substantially all of the net proceeds from such sales to the OP as a capital contribution. The limited partnership agreement of the OP provides that the OP will be operated in a manner that will enable the Company to (1) satisfy the requirements for being classified as a REIT for tax purposes, (2) avoid any federal income or excise tax liability and (3) ensure that the OP will not be classified as a “publicly traded partnership” for purposes of Section 7704 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), which classification could result in the OP being taxed as a corporation, rather than as a partnership. In addition to the administrative and operating costs and expenses incurred by the OP in acquiring and operating real properties, the OP will pay all of the Company’s administrative costs and expenses, and such expenses will be treated as expenses of the OP.

Merger with Moody National REIT I, Inc.

On September 27, 2017, the merger of Moody National REIT I, Inc. (“Moody I”) with and into the Company (the “Merger”) and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I (“Moody I OP”), with and into the OP (the “Partnership Merger,” and together with the Merger, the “Mergers”), were completed. Upon the consummation of the Merger, former Moody I stockholders received a total of approximately 3.61 million Class A shares of the Company’s common stock as stock consideration, which was equal to approximately 42% of the Company’s diluted common equity as of the closing date, and a total of approximately \$45.4 million in cash consideration. In addition, upon consummation of the Partnership Merger, each issued and outstanding unit of limited partnership interest in Moody I OP was automatically cancelled and retired and converted into 0.41 units of Class A limited partnership interest in the OP.

In connection with the Mergers, the Company paid the Advisor an acquisition fee of \$670,000, which equaled 1.5% of the cash consideration paid to Moody I stockholders, and a financing coordination fee of \$1,720,000, which amount was based on the loans assumed from Moody I in connection with the Mergers, including debt held by the Company with respect to two properties that were previously owned by Moody I. Moody I paid its advisor \$5,580,685 (the “Moody I Advisor Payment”). The Moody I Advisor Payment was a negotiated amount that represents a reduction in the disposition fee to which Moody I’s advisor could have been entitled and a waiver of any other fees that Moody I’s advisor would have been due under the Moody I advisory agreement in connection with the Mergers. During the first year following the consummation of the Mergers, if the Company sells a property that was previously owned by Moody I, then any disposition fee to which the Advisor would be entitled under the Advisory Agreement will be reduced by an amount equal to the portion of the Moody I Advisor Payment attributable to such property. In addition, Moody I OP paid \$613,751 to OP Holdings I, LLC, which amount was the promote payment to which OP Holdings I, LLC was entitled under the terms of the limited partnership agreement of Moody I OP. The Company also paid Moody Securities a stockholder servicing fee of up to \$2.125 per share of the Company’s Class A Shares issued as stock consideration in the Merger, for an aggregate amount of approximately \$7.0 million in stockholder servicing fees, all of which was reallocated to broker-dealers that provide ongoing financial advisory services to former stockholders of Moody I following the Mergers and that entered into participating broker-dealer agreements with Moody Securities.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Company’s consolidated financial statements include its accounts and the accounts of its subsidiaries over which it has control. All intercompany balances and transactions are eliminated in consolidation.

The Company includes the accounts of certain entities in its consolidated financial statements when the Company is the primary beneficiary for entities deemed to be variable interest entities (“VIEs”) through which the Company has a controlling interest. Interests in entities acquired are evaluated based on GAAP, which requires the consolidation of VIEs in which the Company is deemed to have the controlling financial interest. The Company has the controlling financial interest if the Company has the power to direct the activities of the VIE that most significantly impact its economic performance and the obligation to absorb losses or receive benefits from the VIE that could be significant to the Company. If the interest in the entity is determined not to be a VIE, then the entity is evaluated for consolidation based on legal form, economic substance, and the extent to which the Company has control and/or substantive participating rights under the respective ownership agreement. There are judgments and estimates involved in determining if an entity in which the Company has an investment is a VIE. The entity is evaluated to determine if it is

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a VIE by, among other things, determining if the equity investors as a group have a controlling financial interest in the entity and if the entity has sufficient equity at risk to finance its activities without additional subordinated financial support. The Company did not have any VIE interests as of December 31, 2018 or 2017.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Organization and Offering Costs

Organization and offering costs of the Company are paid directly by the Company or incurred by the Advisor on behalf of the Company. Pursuant to the Advisory Agreement between the Company and the Advisor, the Company is obligated to reimburse the Advisor or its affiliates, as applicable, for organization and offering costs incurred by the Advisor associated with each of the Company’s public offerings, provided that within 60 days of the last day of the month in which a public offering ends, the Advisor is obligated to reimburse the Company to the extent aggregate organization and offering costs incurred by the Company in connection with the completed public offering exceed 15.0% of the gross offering proceeds from the sale of the Company’s shares of common stock in the completed public offering. Such organization and offering costs include selling commissions and dealer manager fees paid to a dealer manager, legal, accounting, printing and other offering expenses, including marketing, salaries and direct expenses of the Advisor’s employees and employees of the Advisor’s affiliates and others. Any reimbursement of the Advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by the Advisor. The Company’s organization and offering costs incurred in connection with the Company’s initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

All offering costs, including selling commissions and dealer manager fees, are recorded as an offset to additional paid-in-capital, and all organization costs are recorded as an expense when the Company has an obligation to reimburse the Advisor.

As of December 31, 2018, total offering costs for the initial public offering and the follow-on offering were \$19,344,749, comprised of \$12,333,647 of offering costs incurred directly by the Company and \$7,011,102 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2017, total offering costs for the initial public offering were \$18,365,295, comprised of \$12,333,647 of offering costs incurred directly by the Company and \$6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2017, total offering costs for the follow-on offering were \$979,454, comprised of \$0 of offering costs incurred directly by the Company and \$979,454 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2017, the Company had \$52,275 due to the Advisor for reimbursable offering costs.

Income Taxes

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. The Company did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the years ended December 31, 2015 and 2014, including not having 100 shareholders for a sufficient number of days in 2015. Prior to qualifying to be taxed as a REIT, the Company was subject to normal federal and state corporation income taxes.

Provided that the Company continues to qualify as a REIT, it generally will not be subject to federal corporate income tax to the extent it distributes its REIT taxable income to its stockholders, so long as it distributes at least 90% of its REIT taxable income (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP) and satisfies the other organizational and operational requirements for qualification as a REIT. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and federal income and excise taxes on its undistributed income. The Company leases the hotels it acquires to a wholly-owned taxable REIT subsidiary (“TRS”) that is subject to federal, state and local income taxes.

The Company accounts for income taxes of its TRS using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and

MOODY NATIONAL REIT II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period prior to when the new rates become effective. The Company records a valuation allowance for net deferred tax assets that are not expected to be realized.

The Company has reviewed tax positions under GAAP guidance that clarify the relevant criteria and approach for the recognition and measurement of uncertain tax positions. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the consolidated financial statements if it is more likely than not that the tax position will be sustained upon examination. The Company had no material uncertain tax positions as of December 31, 2018.

The preparation of the Company's various tax returns requires the use of estimates for federal and state income tax purposes. These estimates may be subjected to review by the respective taxing authorities. A revision to an estimate may result in an assessment of additional taxes, penalties and interest. At this time, a range in which the Company's estimates may change is not expected to be material. The Company will account for interest and penalties relating to uncertain tax positions in the current period results of operations, if necessary. The Company has tax years 2014 through 2017 remaining subject to examination by various federal and state tax jurisdictions. For more information, see Note 11, "Income Taxes."

Fair Value Measurement

Fair value measures are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Directly or indirectly observable inputs, other than quoted prices in active markets.
- Level 3: Unobservable inputs in which there is little or no market data, which require a reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

- Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach: Amount required to replace the service capacity of an asset (replacement cost).
- Income approach: Techniques used to convert future income amounts to a single amount based on market expectations (including present-value, option-pricing, and excess-earnings models).

The Company's estimates of fair value were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. The Company classifies assets and liabilities in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The Company elected not to use the fair value option in recording its financial instruments, which include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, notes payable, and accounts payable and accrued expenses. With the exception of the Company's fixed-rate notes receivable from related parties and notes payable, the carrying amounts of these financial instruments approximate their fair values due to their short-term nature. For the fair value of the Company's note receivable from related parties and notes payable, see Note 4, "Notes Receivable from Related Parties" and Note 5, "Debt." Additionally, for the fair value information related to purchase accounting for the Mergers, see Note 3, "Investment in Hotel Properties."

Concentration of Risk

As of December 31, 2018, the Company had cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. The Company diversifies its cash and cash equivalents with several banking institutions in an attempt to minimize exposure to any one of these institutions. The Company regularly

MOODY NATIONAL REIT II, INC.
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monitors the financial stability of these financial institutions and believes that it is not exposed to any significant credit risk in cash and cash equivalents or restricted cash.

The Company is also exposed to credit risk with respect to its notes receivable from related parties. The failure of any of the borrowers on the notes receivable from related parties to make payments of interest and principal when due, or any other event of default under the notes receivable from related parties, would have an adverse impact on the Company's results of operations.

The Company is exposed to geographic risk in that eight of its fourteen hotel properties are located in one state, Texas.

Valuation and Allocation of Hotel Properties — Acquisition

Upon acquisition, the purchase price of hotel properties is allocated to the tangible assets acquired, consisting of land, buildings and furniture, fixtures and equipment, any assumed debt, identified intangible assets and asset retirement obligations, if any, based on their fair values. Acquisition costs are charged to expense as incurred. Initial valuations are subject to change during the measurement period, but the measurement period ends as soon as the information is available. The measurement period shall not exceed one year from the acquisition date.

Land values are derived from appraisals and building values are calculated as replacement cost less depreciation or estimates of the relative fair value of these assets using discounted cash flow analyses or similar methods. The value of furniture, fixtures and equipment is based on their fair value using replacement costs less depreciation. Any difference between the fair value of the hotel property acquired and the purchase price of the hotel property is recorded as goodwill or gain on acquisition of hotel property.

The Company determines the fair value of any assumed debt by calculating the net present value of the scheduled mortgage payments using interest rates for debt with similar terms and remaining maturities that the Company believes it could obtain at the date of acquisition. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan as interest expense.

In allocating the purchase price of each of the Company's properties, the Company makes assumptions and uses various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets and discount rates used to determine present values. The Company uses Level 3 inputs to value acquired properties. Many of these estimates are obtained from independent third party appraisals. However, the Company is responsible for the source and use of these estimates. These estimates require judgment and are subject to being imprecise; accordingly, if different estimates and assumptions were derived, the valuation of the various categories of the Company's hotel properties or related intangibles could in turn result in a difference in the depreciation or amortization expense recorded in the Company's consolidated financial statements. These variances could be material to the Company's results of operations and financial condition.

Valuation and Allocation of Hotel Properties — Ownership

Investment in hotel properties is recorded at cost less accumulated depreciation. Major improvements that extend the life of an asset are capitalized and depreciated over a period equal to the shorter of the life of the improvement or the remaining useful life of the asset. The costs of ordinary repairs and maintenance are charged to expense when incurred.

MOODY NATIONAL REIT II, INC.
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Depreciation expense is computed using the straight-line method based upon the following estimated useful lives:

	Estimated Useful Lives (years)
Buildings and improvements.....	39-40
Exterior improvements.....	10-20
Furniture, fixtures and equipment.....	5-10

Impairments

The Company monitors events and changes in circumstances indicating that the carrying amount of a hotel property may not be recoverable. When such events or changes in circumstances are present, the Company assesses potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset from operating activities and from its eventual disposition, to the carrying amount of the asset. In the event that the carrying amount exceeds the estimated future undiscounted cash flows, the Company recognizes an impairment loss to adjust the carrying amount of the asset to estimated fair value for assets held for use and fair value less costs to sell for assets held for sale. There were no such impairment losses for the three and year ended December 31, 2018 and 2017.

In evaluating a hotel property for impairment, the Company makes several estimates and assumptions, including, but not limited to, the projected date of disposition of the property, the estimated future cash flows of the property during the Company’s ownership and the projected sales price of the property. A change in these estimates and assumptions could result in a change in the estimated undiscounted cash flows or fair value of the Company’s hotel property which could then result in different conclusions regarding impairment and material changes to the Company’s consolidated financial statements.

Revenue Recognition

Hotel revenues, including room, food, beverage and other ancillary revenues, are recognized as the related services are delivered. Revenue is recorded net of any sales and other taxes collected from customers. Interest income is recognized when earned. Amounts received prior to guest arrival are recorded as advances from the customer and are recognized at the time of occupancy. Refer to “Recent Accounting Pronouncements” below for further discussion of revenue recognition.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand or held in banks and short-term investments with an initial maturity of three months or less at the date of purchase.

Restricted Cash

Restricted cash includes reserves for property taxes, as well as reserves for property improvements, replacement of furniture, fixtures, and equipment and debt service, as required by certain management or mortgage and term debt agreements restrictions and provisions.

Accounts Receivable

The Company takes into consideration certain factors that require judgments to be made as to the collectability of receivables. Collectability factors taken into consideration are the amounts outstanding, payment history and financial strength of the customer, which, taken as a whole, determines the valuation. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Impairment of Notes Receivable from Related Parties

The Company reviews the notes receivable from related parties for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts recorded as assets on the consolidated balance sheets. The Company applies normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment. When a loan is impaired, the Company measures impairment based on the present value of expected cash flows discounted at the loan’s effective interest rate against the value of the asset recorded on the consolidated balance sheets. The Company may also measure impairment based on a loan’s

MOODY NATIONAL REIT II, INC.
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observable market price or the fair value of collateral, if the loan is collateral dependent. If a loan is deemed to be impaired, the Company records a valuation allowance through a charge to earnings for any shortfall. The Company's assessment of impairment is based on considerable judgment and estimates. The Company did not record a valuation allowance during years ended December 31, 2018 or 2017.

Prepaid Expenses and Other Assets

Prepaid expenses include prepaid property insurance and hotel operating expenses. Other assets also include the Company's deferred income tax asset.

Deferred Franchise Costs

Deferred franchise costs are recorded at cost and amortized over the term of the respective franchise contract on a straight-line basis. Accumulated amortization of deferred franchise costs was \$133,518 and \$50,430 as of December 31, 2018 and 2017, respectively.

Expected future amortization of deferred franchise costs as of December 31, 2018 is as follows (in thousands):

Years Ending December 31,	
2019	\$ 83
2020	83
2021	83
2022	83
2023	80
Thereafter	<u>522</u>
Total	<u>\$ 934</u>

Debt Issuance Costs

Debt issuance costs are presented as a direct deduction from the carrying value of the notes payable on the consolidated balance sheets. Debt issuance costs are amortized as a component of interest expense over the term of the related debt using the straight-line method, which approximates the interest method. Accumulated amortization of debt issuance costs was \$3,003,186 and \$1,029,922 as of December 31, 2018 and 2017, respectively. Expected future amortization of debt issuance costs as of December 31, 2018 is as follows (in thousands):

Years Ending December 31,	
2019	\$ 957
2020	512
2021	511
2022	511
2023	466
Thereafter	<u>506</u>
Total	<u>\$ 3,463</u>

Earnings (Loss) per Share

Earnings (loss) per share ("EPS") is calculated based on the weighted average number of shares outstanding during each period. Basic and diluted EPS are the same for all periods presented. Non-vested shares of restricted common stock totaling 7,500 and 11,250 shares as of December 31, 2018 and 2017, respectively, held by the Company's independent directors are included in the calculation of basic EPS because such shares have been issued and participate in dividends.

Comprehensive Income

For the periods presented, there were no differences between reported net loss attributable to common stockholders and comprehensive loss.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of

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revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the full retrospective or modified retrospective adoption. In July 2015, the FASB voted to defer the effective date to January 1, 2018 with early adoption beginning January 1, 2017. The Company completed its evaluation of the effect that ASU No. 2014-09 will have on the Company's consolidated financial statements and evaluated each of our revenue streams under the new standard. Because of the short-term day-to-day nature of the Company's hotel revenues, the Company determined that the pattern of revenue recognition will not materially change. Under ASU No. 2014-09, there will be a recharacterization of certain revenue streams affecting both gross and net revenue reporting due to changes in principal versus agency guidance, which presentation is deemed immaterial for the Company and will not affect net income. Additionally, the Company does not sell hotel properties to customers as defined by FASB, but have historically disposed of hotel properties for cash sales with no contingencies and no future involvement in the hotel operations, and therefore, ASU No. 2014-09 will not impact the recognition of hotel sales. The Company finalized its expanded disclosure for the notes to the consolidated financial statements pursuant to the new requirements. The Company adopted this standard on its effective date of January 1, 2018 under the cumulative effect transition method. No adjustment was recorded to the Company's opening balance of retained earnings on January 1, 2018 as there was no impact to net income. Additionally, comparative information beginning in 2018 will not be restated and will continue to be reported in a manner consistent with Revenue Recognition (Topic 605). The Company also expects that the effect of adoption of ASU No. 2014-09 will be immaterial to the Company on an on-going basis.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company anticipates adopting this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on the Company's consolidated financial statements and related disclosures, the Company believes the impact will be minimal to the Company's ongoing consolidated statements of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses the Statement of Cash Flow classification and presentation of certain cash transactions. ASU No. 2016-15 is effective for the Company's fiscal year commencing on January 1, 2018. The effect of this amendment is to be applied retrospectively where practical and early adoption is permitted. The Company adopted ASU No. 2016-15 for the Company's fiscal year commencing on January 1, 2018. The Company does not believe that the adoption of ASU No. 2016-15 has a material effect on the Company's ongoing consolidated financial position or the Company's ongoing consolidated results of operations.

In November 2016, the FASB issued ASU No. 2016-18, "Classification of Restricted Cash," which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard will be effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. The Company adopted this standard on January 1, 2018. As a result, restricted cash reserves are included with cash and cash equivalents on the Company's consolidated statements of cash flows. The adoption did not change the presentation of the Company's consolidated balance sheets.

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The following table provides additional detail by financial statement line item of the ASU No. 2016-18 impact on the Company's consolidated statement of cash flows for the years ended December 31, 2018 and 2017:

(in thousands)	As Reported (Pre-Adoption)	ASU No. 2016-18 Impact	Reported (Post Adoption)
Year Ended December 31, 2018			
Net change in cash, cash equivalents and restricted cash	\$ 776	\$ (3,317)	\$ (2,541)
Cash, cash equivalents and restricted cash at beginning of year	<u>8,214</u>	<u>13,521</u>	<u>21,735</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 8,990</u>	<u>\$ 10,204</u>	<u>\$ 19,194</u>
Year Ended December 31, 2017			
Net change in cash, cash equivalents and restricted cash	\$ (11,363)	\$ 11,650	\$ 287
Cash, cash equivalents and restricted cash at beginning of year	<u>19,577</u>	<u>1,871</u>	<u>21,448</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 8,214</u>	<u>\$ 13,521</u>	<u>\$ 21,735</u>

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business," with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as an acquisition of assets or a business. ASU No. 2017-01 is effective for the Company's fiscal year commencing on January 1, 2018. The effect of this guidance is to be applied prospectively and early adoption is permitted. The Company does not believe that the adoption of ASU No. 2017-01 will have a material effect on the Company's ongoing consolidated financial position or the Company's ongoing consolidated results of operations.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," which clarifies the scope of asset derecognition and adds further guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. ASU No. 2017-05 will impact the recognition of gains and losses from hotel sales. This standard is effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and does not anticipate that ASU No. 2017-05 will affect the Company's ongoing consolidated statements of operations and comprehensive income.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on the Company's ongoing consolidated financial statements.

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3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company's investment in hotel properties as of December 31, 2018 (all \$ amounts in thousands):

<u>Property Name</u>	<u>Date Acquired</u>	<u>Location</u>	<u>Ownership Interest</u>	<u>Original Purchase Price⁽¹⁾</u>	<u>Rooms</u>	<u>Mortgage Debt Outstanding⁽²⁾</u>
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	\$ 27,500	112	\$ 16,554
Springhill Suites Seattle	May 24, 2016	Seattle, Washington	100%	74,100	234	44,884
Homewood Suites Woodlands	September 27, 2017 ⁽⁵⁾	The Woodlands, Texas	100%	17,356	91	9,066
Hyatt Place Germantown	September 27, 2017 ⁽⁵⁾	Germantown, Tennessee	100%	16,074	127	7,025
Hyatt Place North Charleston.....	September 27, 2017 ⁽⁵⁾	North Charleston, South Carolina	100%	13,806	113	7,158
Hampton Inn Austin	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	19,328	123	10,687
Residence Inn Grapevine	September 27, 2017 ⁽⁵⁾	Grapevine, Texas	100%	25,245	133	12,341
Marriott Courtyard Lyndhurst.....	September 27, 2017 ⁽⁵⁾	Lyndhurst, New Jersey	⁽³⁾	39,547	227	—
Hilton Garden Inn Austin.....	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	29,288	138	18,401
Hampton Inn Great Valley	September 27, 2017 ⁽⁵⁾	Frazer, Pennsylvania	100%	15,285	125	7,994
Embassy Suites Nashville	September 27, 2017 ⁽⁵⁾	Nashville, Tennessee	100%	82,207	208	41,998
Homewood Suites Austin.....	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	18,835	96	10,778
Townplace Suites Fort Worth	September 27, 2017 ⁽⁵⁾	Fort Worth, Texas	⁽⁴⁾	11,242	95	—
Hampton Inn Houston	September 27, 2017 ⁽⁵⁾	Houston, Texas	100%	9,958	119	4,480
Totals				<u>\$ 399,771</u>	<u>1,941</u>	<u>\$ 191,366</u>

(1) Excludes closing costs and includes gain on acquisition.

(2) As of December 31, 2018.

(3) The Marriott Courtyard Lyndhurst is owned by MN Lyndhurst Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Marriott Courtyard Lyndhurst is pledged as security for the Term Loan. See Note 5, "Debt."

(4) The Townplace Suites Fort Worth is owned by MN Fort Worth Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Townplace Suites Fort Worth is pledged as security for the Term Loan. See Note 5, "Debt."

(5) Property acquired as a result of the Mergers.

Investment in hotel properties consisted of the following at December 31, 2018 and December 31, 2017 (in thousands):

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 70,456	\$ 70,456
Buildings and improvements.....	297,680	297,554
Furniture, fixtures and equipment	43,632	35,170
Total cost	411,768	403,180
Accumulated depreciation.....	(18,628)	(6,545)
Investment in hotel properties, net.....	<u>\$ 393,140</u>	<u>\$ 396,635</u>

Acquisition of Moody I

On September 27, 2017, in connection with the Mergers, the Company acquired interests in twelve hotel properties, including two joint venture interests, and two notes receivable from related parties from Moody I (the "Moody I Portfolio").

As of the date of the Mergers, there were 13,257,126 shares of Moody I common stock issued and outstanding, resulting in aggregate merger consideration of \$135,885,546, consisting of the following (in thousands):

Value of Company's Class A Shares issued to Moody I stockholders	\$ 90,486
Cash consideration paid	45,400
Aggregate merger consideration	<u>\$ 135,886</u>

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67% of Moody I stockholders elected to receive stock consideration in the Merger, resulting in the Company's then current stockholders and former Moody I stockholders owning 58% and 42%, respectively, of the common stock of the Company outstanding after the consummation of the Merger, as follows (in thousands):

Company shares outstanding at date of merger.....	4,904
Company Class A common shares issued to Moody I stockholders on date of Merger	3,619
Total Company shares outstanding after Merger	<u>8,523</u>

After consideration of all applicable factors pursuant to the business combination accounting rules, the Company is considered the "accounting acquirer" because the Company is issuing common stock to Moody I stockholders, and also due to various factors including that the Company's stockholders immediately preceding the Merger hold the largest portion of the voting rights in the Company immediately after the Merger.

The aggregate purchase price consideration as shown above was allocated to assets and liabilities of Moody I was as follows (in thousands):

Assets

Investment in hotel properties.....	\$ 298,171
Cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other assets, deferred income tax asset, deferred franchise costs, and due from related parties	13,340
Notes receivable from related parties.....	11,250

Liabilities and Equity

Notes payable.....	(132,745)
Notes receivable from Moody I	(37,754)
Accounts payable and accrued expenses, due to related parties, and operating partnership distributions payable.....	(10,265)
Noncontrolling interests in OP.....	(6,111)
Aggregate merger consideration	<u>\$ 135,886</u>

The purchase price allocation was based on the Company's assessment of the fair value of the acquired assets and liabilities, as summarized below.

Investment in hotel properties – The Company estimated the fair value generally by applying an income approach methodology using a discounted cash flow analysis. Key assumptions include terminal capitalization rates, discount rates and future cash flows of the properties. Capitalization and discount rates were determined by market based on recent appraisals, transactions or other market data. This valuation methodology is based on Level 3 inputs in the fair value hierarchy.

Cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other assets, deferred franchise costs, and due from related parties – The fair value was estimated to be their cost basis due to their short-term nature.

Deferred income tax asset – The Company estimated the fair value of the deferred income tax asset by estimating the amount of the net operating loss that will be utilized in future periods by the TRS. The estimated fair value assumes the net operating losses of Moody I will be able to be utilized by the Company's TRS, subject to limitations caused by the change in control of the TRS.

Notes receivable from related parties – The fair value was determined using discounted cash flow analyses at market interest rates. The valuation methodology is based on Level 2 inputs in the fair value hierarchy.

Notes payable – The fair value was determined using discounted cash flow analyses at market interest rates, which are Level 2 inputs in the fair value hierarchy.

Accounts payable and accrued expenses, due to related parties, and operating partnership distributions payable – The fair value was estimated to be their cost basis due to their short-term maturities.

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Noncontrolling interests in Operating Partnership – The Company estimated the portion of the fair value of the net assets of the OP owned by third parties. This valuation methodology is based on Level 3 inputs in the fair value hierarchy.

The results of operations of the Moody I Portfolio have been included in the consolidated statement of operations as of the date of acquisition of September 27, 2017. The following unaudited pro forma consolidated financial information for the year ended December 31, 2017 is presented as if the Company acquired the Moody I Portfolio on January 1, 2017. This information is not necessarily indicative of what the actual results of operations would have been had the Company completed the acquisition of the Moody I Portfolio on January 1, 2017, nor does it purport to represent the Company’s future operations (in thousands, except per common share amounts):

Revenue	\$ 85,210
Net loss	(6,172)
Net loss attributable to common stockholders	(5,863)
Net loss per common share - basic and diluted.....	\$ (0.69)

4. Notes Receivable from Related Parties

As of December 31, 2018 and 2017, the amount of the mortgage note receivable from related party was \$0 and \$11,200,000, respectively. As of December 31, 2018 and 2017, the amounts of notes receivable from related parties were \$6,750,000 and \$11,250,000, respectively.

Mortgage Note Receivable from Related Party

On October 6, 2016, the Company originated a secured loan in the aggregate principal amount of \$11,200,000 (the “MN TX II Note”) to MN TX II, LLC, a Texas limited liability company and a related party (“MN TX II”). Proceeds from the MN TX II Note were used by MN TX II solely to acquire a commercial real property located in Houston, Texas. The Company financed the MN TX II Note in part with the proceeds of a loan from a bank secured by the MN TX II Note, with an initial principal balance of \$8,400,000.

The MN TX II Note was paid in full with all accrued interest thereon on June 29, 2018. While outstanding, interest on the outstanding principal balance of the MN TX II Note accrued at a fixed per annum rate equal to 5.50%, provided that in no event would the interest rate exceed the maximum rate permitted by applicable law. The MN TX II Note could be prepaid in whole or part by MN TX II without penalty at any time upon prior written notice to the Company. Interest income on the MN TX II Note was \$309,854 and \$624,555, respectively, for the years ended December 31, 2018 and 2017.

The estimated fair value of the MN TX II Note as of December 31, 2018 and December 31, 2017 was \$0 and \$11,200,000, respectively. The fair value of the MN TX II Note was estimated based on discounted cash flow analyses using the current incremental lending rates for similar types of lending arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

Notes Receivable from Related Parties

Related Party Note. On August 21, 2015, Moody I originated an unsecured loan in the aggregate principal amount of \$9,000,000 (the “Related Party Note”) to Moody National DST Sponsor, LLC, a Texas limited liability company and an affiliate of Sponsor (“DST Sponsor”). Proceeds from the Related Party Note were used by DST Sponsor solely to acquire a commercial real property located in Katy, Texas (the “Subject Property”). The balance of the Related Party Note was \$6,750,000 as of December 31, 2018 and 2017. The Company acquired the Related Party Note in connection with the Mergers.

On August 15, 2016, the maturity date of the Related Party note was extended from August 21, 2016 to August 21, 2017 and the origination fee in the amount of \$90,000 and an extension fee in the amount of \$45,000 were paid to Moody I by DST Sponsor. On September 24, 2017, the maturity date was extended to August 21, 2018. On August 30, 2018, the maturity date was extended to April 30, 2019.

Related Party Mezzanine Note. On April 29, 2016, Moody I originated an unsecured loan in the aggregate principal amount of \$4,500,000 (the “Related Party Mezzanine Note”) to Moody Realty, an affiliate of Sponsor. Proceeds from the Related Party Mezzanine Note were used by Moody Realty solely to acquire a multifamily real

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property located in Houston, Texas. The Company acquired the Related Party Mezzanine Note in connection with the Mergers.

In March 2018, the unpaid principal balance of the Related Party Mezzanine Note and all accrued and unpaid interest thereon, and all other amounts due under the Related Party Mezzanine Note, were paid in full. Prior to the retirement of the Related Party Mezzanine Note, interest on the outstanding principal balance of such note accrued at a fixed per annum rate equal to 10%. Moody Realty paid an origination fee in the amount of \$45,000, and an exit fee of \$45,000 upon maturity.

Interest income from notes receivable from related parties was \$864,900 and \$348,800 for the years ended December 31, 2018 and 2017, respectively. Interest receivable on notes receivable from related parties was \$810,000 and \$0 as of December 31, 2018 and 2017, respectively.

The aggregate estimated fair values of the notes receivable from related parties as of December 31, 2018 and December 31, 2017 was \$6,750,000 and \$11,250,000, respectively. The fair value of the notes receivable from related parties was estimated based on discounted cash flow analyses using the current incremental lending rates for similar types of lending arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

Lyndhurst Loan. On September 6, 2017, the OP made a loan in the amount of \$30,647,770 (the “Lyndhurst Loan”) to Moody National 1 Polito Lyndhurst Holding, LLC (“Lyndhurst Holding”), an indirect subsidiary of Moody I OP, and Lyndhurst Holding executed a promissory note (the “Lyndhurst Note”) evidencing the Lyndhurst Loan in favor of the Company. The Lyndhurst Note bore interest at a rate of 6.50% per annum and was secured by the Marriott Courtyard hotel property owned by Lyndhurst Holding and located in Lyndhurst, New Jersey (the “Lyndhurst Property”). The Lyndhurst Loan matured and was retired upon the consummation of the Mergers. Interest income from the Lyndhurst Loan was \$0 and \$115,000 for the years ended December 31, 2018 and 2017, respectively. Lyndhurst Holding used the proceeds of the Lyndhurst Loan to repay a loan secured by the Lyndhurst Property that had matured and had become due.

Fort Worth Loan. On August 15, 2017, the OP made a loan in the amount of \$7,106,506 (the “Fort Worth Loan”) to Moody National International-Fort Worth Holding, LLC, (“Fort Worth Holding”), an indirect subsidiary of Moody I OP, and Fort Worth Holding executed a promissory note (the “Fort Worth Note”) evidencing the Fort Worth Loan in favor of the Company. The Fort Worth Note bore interest at a rate of 6.50% per annum and was secured by a Townplace Suites hotel property owned by Moody I and located in Ft. Worth, Texas (the “Fort Worth Property”). The Fort Worth Loan matured and was retired upon the consummation of the Mergers. Interest income from the Fort Worth Loan was \$0 and \$55,000 for the years ended December 31, 2018 and 2017, respectively. Fort Worth Holding used the proceeds of the Fort Worth Loan to repay an existing loan secured by the Fort Worth Property that had matured and had become due. See Note 7, “Related Party Arrangements.”

5. Debt

The Company’s aggregate borrowings are reviewed by the Company’s board of directors at least quarterly. Under the Company’s Articles of Amendment and Restatement (as amended, the “Charter”), the Company is prohibited from borrowing in excess of 300% of the value of the Company’s net assets. “Net assets” for purposes of this calculation is defined to be the Company’s total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. However, the Company may temporarily borrow in excess of these amounts if such excess is approved by a majority of the Company’s independent directors and disclosed to stockholders in the Company’s next quarterly report, along with an explanation for such excess. As of December 31, 2018, the Company’s debt levels did not exceed 300% of the value of the Company’s net assets, as defined above.

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As of December 31, 2018 and 2017, the Company's mortgage notes payable secured by the respective assets, consisted of the following (all \$ amounts in thousands):

<u>Loan</u>	<u>Principal as of December 31, 2018</u>	<u>Principal as of December 31, 2017</u>	<u>Interest Rate at December 31, 2018</u>	<u>Maturity Date</u>
Residence Inn Austin ⁽¹⁾	\$ 16,554	\$ 16,575	4.580%	November 1, 2025
Springhill Suites Seattle ⁽²⁾	44,884	45,000	4.380%	October 1, 2026
MN TX II Note ⁽³⁾	—	8,400	4.500%	October 6, 2018
Homewood Suites Woodlands ⁽⁴⁾	9,066	9,209	4.690%	April 11, 2025
Hyatt Place Germantown ⁽⁴⁾	7,025	7,179	4.300%	May 6, 2023
Hyatt Place North Charleston ⁽⁴⁾	7,158	7,292	5.193%	August 1, 2023
Hampton Inn Austin ⁽⁴⁾	10,687	10,871	5.426%	January 6, 2024
Residence Inn Grapevine ⁽⁴⁾	12,341	12,556	5.250%	April 6, 2024
Hilton Garden Inn Austin ⁽⁴⁾	18,401	18,707	4.530%	December 11, 2024
Hampton Inn Great Valley ⁽⁴⁾	7,994	8,120	4.700%	April 11, 2025
Embassy Suites Nashville ⁽⁴⁾	41,998	42,715	4.2123%	July 11, 2025
Homewood Suites Austin ⁽⁴⁾	10,778	10,946	4.650%	August 11, 2025
Hampton Inn Houston ⁽⁴⁾	4,480	4,604	7.250%	April 28, 2023
Term Loan ⁽⁵⁾	26,300	67,000	30-day LIBOR plus 3.750%	September 27, 2019
Short Term Loan ⁽⁶⁾	12,971	—	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	<u>230,637</u>	<u>269,174</u>		
Less unamortized debt issuance costs.....	<u>(3,463)</u>	<u>(4,838)</u>		
Total notes payable, net of unamortized debt issuance costs.....	<u>\$ 227,174</u>	<u>\$ 264,336</u>		

- (1) Monthly payments of interest are due and payable until the maturity date. Monthly payments of principal are due and payable beginning in December 2017 and continue to be due and payable until the maturity date.
- (2) Monthly payments of interest only were due and payable in calendar year 2017, after which monthly payments of principal and interest are due and payable until the maturity date.
- (3) Monthly payments of interest only were due until the maturity date. The entire principal balance and all interest thereon was repaid in full prior to June 30, 2018.
- (4) Monthly payments of principal and interest are due and payable until the maturity date.
- (5) Monthly payments of interest were due and payable until October 2017. Monthly payments of principal and interest were due and payable beginning in November 2017 until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019, as discussed below. The Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth properties are pledged as security for the Term Loan.
- (6) Monthly payments of interest only were due until the maturity date. All unpaid principal and interest thereon will be due at maturity on April 24, 2019.

Hotel properties secure their respective loans. The loan from a bank with which the Company financed the MN TX II Note was secured by the MN TX II Note. The Term Loan is partially secured by Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and is partially unsecured.

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Scheduled maturities of the Company's notes payable as of December 31, 2018 are as follows (in thousands):

Years ending December 31,	
2019	\$ 42,597
2020	3,463
2021	3,655
2022	3,832
2023	20,415
Thereafter	<u>156,674</u>
Total	<u>\$ 230,636</u>

Term Loan Agreement

On September 27, 2017, the OP, as borrower, the Company and certain of the Company's subsidiaries, as guarantors, and KeyBank National Association ("KeyBank"), as agent and lender, entered into a term loan agreement (as amended, the "Term Loan Agreement") (KeyBank, in its capacity as lender, together with any other lender institutions that may become parties thereto, are referred to as the "Lenders"). Pursuant to the Term Loan Agreement, the Lenders have made a term loan to the OP in the principal amount of \$70.0 million (the "Term Loan"). Capitalized terms used in this description of the Term Loan and not defined herein have the same meaning as in the Term Loan Agreement. The Company used proceeds from the Term Loan to pay the cash consideration in connection with the Mergers, other costs and expenses related to the Mergers and for other corporate purposes. The outstanding principal of the Term Loan will initially bear interest, payable monthly, at either (i) 6.25% per year over the base rate, which is defined in the Term Loan Agreement as the greatest of (a) the fluctuating annual rate of interest announced from time to time by the Agent at the Agent's Head Office as its "prime rate," (b) the then applicable LIBOR for a one month Interest Period plus one percent (1.00%), or (c) one half of one percent (0.5%) above the Federal Funds Effective Rate or (ii) 7.25% per year over the LIBOR rate for the applicable Interest Period, but upon reduction of the outstanding principal balance of the Term Loan to a specified level, the margins over the base rate or LIBOR rate will be reduced to 2.95% and 3.95%, respectively. As a condition to the funding of the Term Loan, the OP has entered into an interest rate cap arrangement with KeyBank that caps LIBOR at 1.75% until the initial Maturity Date with respect to \$26.0 million of the principal of the Term Loan. The Company began making principal payments of \$1.5 million per month in November 2017.

On March 28, 2018, the parties to the Term Loan Agreement entered into a letter agreement, or the Term Loan Letter Agreement, pursuant to which the parties thereto agreed to change the commencement of the Company's obligation under the Term Loan Agreement to raise \$10 million per quarter in gross offering proceeds to the calendar quarter June 30, 2017. The Company satisfied such obligation with respect to the calendar quarter ended December 31, 2018.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018. On October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan, subject to satisfaction of certain conditions, including payment of an extension fee in the amount of 0.5% of the then outstanding principal amount of the Term Loan. The Outstanding Balance of \$26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the maturity date of the Term Loan. In addition, the Term Loan originally provided for monthly interest payments, for mandatory prepayments of principal from the proceeds of certain capital events, and for monthly payments of principal in an amount equal to the greater of (i) 50% the OP's Consolidated Net Cash Flow or (ii) \$1,500,000. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal of \$100,000 per month, and the margins over the base rate or LIBOR rate will be 2.75% and 3.75%, respectively. The Term Loan may be prepaid at any time, in whole or in part, without premium or penalty, as described in the Term Loan Agreement. Upon the occurrence of an event of default, the Lenders may accelerate the payment of the Outstanding Balance.

The performance of the Company's obligations under the Term Loan Agreement is secured by, among other things, mortgages on the Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and by pledges of certain portions of the ownership interests in certain subsidiaries of the OP. Pursuant to a Guaranty Agreement in favor of KeyBank, the Company and certain of its subsidiaries, including the owners of the Lyndhurst hotel property and Fort Worth hotel property, will be fully and personally liable for the payment and performance of the obligations set forth in the Term Loan Agreement and all other loan documents, including the payment of all indebtedness and obligations due under the Term Loan Agreement.

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The Term Loan Agreement also contains various customary covenants, including but not limited to financial covenants, covenants requiring monthly deposits in respect of certain property costs, such as taxes, furniture, fixtures and equipment, and insurance, covenants imposing restrictions on indebtedness and liens, and restrictions on investments and participation in other asset disposition, merger or business combination or dissolution transactions.

Failure of the Company to comply with financial and other covenants contained in its mortgage loan or the Term Loan could result from, among other things, changes in results of operations, the incurrence of additional debt or changes in general economic conditions.

If the Company violates financial and other covenants contained in any of the mortgage loans or Term Loan described above, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable mortgage loan or the Term Loan with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the mortgage loans or the Term Loan were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offering of debt securities, or additional equity financings. If the company is unable to refinance its debt on acceptable terms, including a maturity of the mortgage loans or the Term Loan, it may be forced to dispose of the hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increase interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to stockholders.

Requirements associated with a mortgage loan to deposit and disburse operating receipts in a specified manner may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

As of December 31, 2018, the Company was in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans or the Term Loan.

Short Term Loan

On October 24, 2018, the Company and the OP issued a promissory note in favor Green Bank, N.A. in the original principal amount of \$16,000,000 ("Short Term Loan"). The proceeds of the promissory note were used to retire a portion of the Term Loan, resulting in a balance of \$26.5 million for the Term Loan as of October 24, 2018. The maturity date of the promissory note is April 24, 2019 and the note bears interest at an annual rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 2.5%. The Company and the OP are collectively required to make a monthly payment on the outstanding principal and interest of the promissory note equal to the greater of \$1,500,000 and 50% of our consolidated net cash flow. The promissory note may be prepaid at any time in whole or in part without penalty.

The estimated fair value of the Company's notes payable as of December 31, 2018 and 2017 was \$231,000,000 and \$269,000,000, respectively. The fair value of the notes payable was estimated based on discounted cash flow analyses using the current incremental borrowing rates for similar types of borrowing arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

6. Equity

Capitalization

Under its Charter, the Company has the authority to issue 1,000,000,000 shares of common stock and 100,000,000 shares of preferred stock. All shares of such stock have a par value of \$0.01 per share. On August 15, 2014, the Company sold 8,000 shares of common stock to the Sponsor at a purchase price of \$25.00 per share for an aggregate purchase price of \$200,000, which was paid in cash. As of December 31, 2018, there were a total of 10,635,728 shares of the Company's common stock issued and outstanding, including 7,011,982 shares, net of redemptions, issued in the Offering, 3,570,746 shares, net of redemptions, issued in connection with the Merger, the 8,000 shares sold to Sponsor and 45,000 shares of restricted stock, as discussed in Note 8, "Incentive Award Plan," as follows:

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Class	Shares Outstanding as of December 31, 2018
Class A Shares	10,294,007
Class D Shares	—
Class T Shares.....	270,162
Class I Shares.....	71,559
Total	10,635,728

The Company's board of directors is authorized to amend the Charter without the approval of the stockholders to increase the aggregate number of authorized shares of capital stock or the number of shares of any class or series that the Company has authority to issue.

Distributions

The Company's board of directors has authorized and declared a distribution to its stockholders for 2018 that will be (1) calculated daily and reduced for class-specific expenses; (2) payable in cumulative amounts on or before the 15th day of each calendar month to stockholders of record as of the last day of the previous month; and (3) calculated at a rate of \$1.7528 per share of the Company's common stock per year, or approximately \$0.00480 per share per day, before any class-specific expenses. The Company's board of directors authorized and declared a distribution to its stockholders for 2017 that (1) was calculated daily and reduced for class-specific expenses; (2) was payable in cumulative amounts on or before the 15th day of each calendar month to stockholders of record as of the last day of the previous month; and (3) was calculated at a rate of \$1.75 per share of the Company's common stock per year, or approximately \$0.00479 per share per day, before any class-specific expenses. The Company first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three and year ended December 31, 2018 and 2017 (in thousands):

Period	Cash Distribution	Distribution Paid Pursuant to DRP⁽¹⁾	Total Amount of Distribution
First Quarter 2018	\$ 3,218	\$ 634	\$ 3,852
Second Quarter 2018.....	3,039	963	4,002
Third Quarter 2018.....	3,241	1,034	4,275
Fourth Quarter 2018.....	3,437	1,087	4,524
Total	\$ 12,935	\$ 3,718	\$ 16,653
First Quarter 2017	\$ 1,017	\$ 410	\$ 1,427
Second Quarter 2017.....	1,325	590	1,915
Third Quarter 2017.....	1,478	627	2,105
Fourth Quarter 2017.....	2,161	820	2,981
Total	\$ 5,981	\$ 2,447	\$ 8,428

(1) Amount of distributions paid in shares of common stock pursuant to the DRP.

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Noncontrolling Interest in Operating Partnership

Noncontrolling interest in the OP at December 31, 2018 and 2017 was \$5,199,310 and \$6,062,150, respectively, which represented 316,037 common units in the OP issued in connection with the acquisition of the Springhill Suites Seattle and the Partnership Merger, and is reported in equity in the consolidated balance sheets. Loss from the OP attributable to these noncontrolling interests was \$308,892 and \$260,071 for the years ended December 31, 2018 and 2017, respectively.

7. Related Party Arrangements

Pursuant to the Advisory Agreement, the Advisor and certain affiliates of Advisor receive fees and compensation in connection with the Company's public offerings and the acquisition, management and sale of the Company's real estate investments. In addition, in exchange for \$1,000 and in consideration of services to be provided by the Advisor, the OP has issued an affiliate of the Advisor, Moody LPOP II, a separate, special limited partnership interest, in the form of Special Limited Partnership Interests. For further detail, please see Note 9, "Subordinated Participation Interest."

Sales Commissions, Dealer Manager Fees and Stockholder Servicing Fees

From January 1, 2017 through June 12, 2017, the Company paid Moody Securities an up-front selling commission of up to 7.0% of the gross proceeds of what are now the Class A Shares sold in the Company's primary offering and a dealer manager fee of up to 3.0% of the gross proceeds of what are now the Class A Shares sold in the Company's primary offering. Beginning on June 12, 2017, the Company reallocated its common shares into four separate share classes with the following fees: (A) up-front selling commissions of up to (i) 7.0% of the gross proceeds of the Class A Shares sold in the Company's primary offering and (ii) 3.0% of the gross proceeds of the Class T Shares sold in the Company's primary offering; (B) up-front dealer manager fees of up to (i) 3.0% of the gross proceeds of the Class A Shares sold in the Company's primary offering and (ii) 2.5% of the gross proceeds of the Class T Shares sold in the Company's primary offering (the Sponsor may also pay Moody Securities (i) up-front dealer manager fees of up to 1.0% of the total amount of Class I Shares purchased in the primary offering and (ii) up-front selling commissions of up to 3.0% on purchases of \$5,000,000 or more of Class D Shares purchased in the primary offering, which will not be reimbursed by the Company); and (C) a trailing stockholder servicing fee of (i) 1.0% per annum of the NAV of Class T Shares sold in the primary offering and (ii) 0.5% per annum of the NAV of Class D Shares sold in the primary offering. Shares sold pursuant to the DRP are not subject to selling commissions, dealer manager fees or stockholder servicing fees. Moody Securities may reallocate all or a portion of the foregoing selling commissions, dealer manager fees or stockholder servicing fees to participating broker-dealers.

Beginning January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's ongoing public offering; provided, however, that the Advisor intends to recoup the funding of such amounts through the Contingent Advisor Payment. In connection with the implementation of the Contingent Advisor Payment, the Company reduced the up-front selling commission paid with respect to the Class A Shares from up to 7.0% to up to 6.0% of the gross proceeds of the Class A Shares sold in the Company's primary offering and reduced the dealer manager fee paid with respect to the Class A Shares from up to 3.0% to up to 2.5% of the gross proceeds of the Class A Shares sold in the Company's primary offering. As of December 31, 2018, the Company and the Advisor had paid Moody Securities \$9,423,133 in selling commissions and trailing stockholder servicing fees and \$2,099,018 in dealer manager fees, which amounts have been recorded as a reduction to additional paid-in capital in the consolidated balance sheets and \$3,731,889 which could potentially be recouped by the Advisor at a later date through the Contingent Advisor Payment.

Organization and Offering Expenses

The Advisor will receive reimbursement for organizational and offering expenses incurred on the Company's behalf, but only to the extent that such reimbursements do not exceed actual expenses incurred by Advisor and do not cause the cumulative selling commissions, dealer manager fees, stockholder servicing fees and other organization and offering expenses borne by the Company to exceed 15.0% of gross offering proceeds from the sale of shares in the Company's follow-on offering as of the date of reimbursement.

As of December 31, 2018, total offering costs for the initial public offering and the follow-on offering were \$19,344,749, comprised of \$12,333,647 of offering costs incurred directly by the Company and \$7,011,102 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2017, total offering costs for the initial public offering were \$18,365,295, comprised of \$12,333,647 of offering costs incurred directly by the Company and

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\$6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2018, total offering costs for the follow-on offering were \$979,454, comprised of \$0 of offering costs incurred directly by the Company and \$979,454 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2018, the Company had \$52,275 due to the Advisor for reimbursable offering costs.

Acquisition Fees

As of January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees in connection with the Offering. In connection therewith, as of January 16, 2018, the acquisition fee payable to the Advisor was increased from 1.5% to up to a maximum of 3.85% of (1) the cost of all investments the Company acquires (including the Company's pro rata share of any indebtedness assumed or incurred in respect of the investment and exclusive of acquisition and financing coordination fees), (2) the Company's allocable cost of investments acquired in a joint venture (including the Company's pro rata share of the purchase price and the Company's pro rata share of any indebtedness assumed or incurred in respect of that investment and exclusive of acquisition fees and financing coordination fees) or (3) the amount funded by the Company to acquire or originate a loan or other investment, including mortgage, mezzanine or bridge loans (including any third-party expenses related to such investment and exclusive of acquisition fees and financing coordination fees). The up to 3.85% acquisition fee consists of (i) a 1.5% base acquisition fee and (ii) up to an additional 2.35% contingent acquisition fee (the "Contingent Advisor Payment"). The 1.5% base acquisition fee will always be payable upon the acquisition of an investment by the Company, unless the receipt thereof is waived by the Advisor. The amount of the Contingent Advisor Payment to be paid in connection with the closing of an acquisition will be reviewed on an acquisition-by-acquisition basis and such payment shall not exceed the then-outstanding amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees at the time of such closing. In addition, the first \$3,500,000 of aggregate Contingent Advisor Payments that would otherwise be paid to the Advisor (the "Contingent Advisor Holdback"), will be retained by the Company until January 16, 2019, at which time any portion of the Contingent Advisor Holdback owed to the Advisor will be paid. For purposes of determining the amount of Contingent Advisor Payment payable, the amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees and considered "outstanding" will be reduced by the amount of the Contingent Advisor Payment previously paid and taking into account the amount of the Contingent Advisor Holdback. The Advisor may waive or defer all or a portion of the acquisition fee at any time and from time to time, in the Advisor's sole discretion. For the year ended December 31, 2018, the Company did not pay Advisor any acquisition fees. For the year ended December 31, 2017, the Company paid the Advisor acquisition fees of \$670,000 in connection with the Mergers, which amount was equal to 1.5% of the cash consideration paid to Moody I stockholders

Reimbursement of Acquisition Expenses

The Advisor may also be reimbursed by the Company for actual expenses related to the evaluation, selection and acquisition of real estate investments, regardless of whether the Company actually acquires the related assets. The Company did not reimburse the Advisor for any acquisition expenses during the years ended December 31, 2018 and 2017.

Financing Coordination Fee

The Advisor also receives financing coordination fees of 1% of the amount available under any loan or line of credit made available to the Company and 0.75% of the amount available or outstanding under any refinanced loan or line of credit. The Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. The Company did not incur any financing coordination fees payable to the Advisor during year ended December 31, 2018. For the year ended December 31, 2017, the Company paid \$1,720,000 in financing coordination fees to the Advisor in connection with the acquisition of the Moody I Portfolio based on the loans assumed from Moody I in connection with the Merger, including the debt held by the Company related to the Marriott Courtyard Lyndhurst and the Townplace Suites Forth Worth.

Property Management Fee

The Company pays Moody National Hospitality Management, LLC ("Property Manager") a monthly hotel management fee equal to 4.0% of the monthly gross operating revenues from the properties managed by Property Manager for services it provides in connection with operating and managing properties. The hotel management agreements between the Company and the Property Manager generally have initial terms of ten years. Property Manager may pay some or all of the compensation it receives from the Company to a third-party property manager for

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management or leasing services. In the event that the Company contracts directly with a non-affiliated third-party property manager, the Company will pay Property Manager a market-based oversight fee. The Company will reimburse the costs and expenses incurred by Property Manager on the Company's behalf, including legal, travel and other out-of-pocket expenses that are directly related to the management of specific properties, but the Company will not reimburse Property Manager for general overhead costs or personnel costs other than employees or subcontractors who are engaged in the on-site operation, management, maintenance or access control of the properties. For the years ended December 31, 2018 and 2017, the Company paid the Property Manager property management fees of \$3,185,388 and \$1,409,841, and accounting fees of \$420,000 and \$154,000, respectively, which are included in hotel operating expenses in the accompanying consolidated statements of operations.

The Company pays an annual incentive fee to Property Manager. Such annual incentive fee is equal to 15% of the amount by which the operating profit from the properties managed by Property Manager for such fiscal year (or partial fiscal year) exceeds 8.5% of the total investment of such properties. Property Manager may pay some or all of this annual incentive fee to third-party sub-property managers for management services. For purposes of this annual incentive fee, "total investment" means the sum of (i) the price paid to acquire a property, including closing costs, conversion costs, and transaction costs; (ii) additional invested capital and (iii) any other costs paid in connection with the acquisition of the property, whether incurred pre- or post-acquisition. As of December 31, 2018, the Company had not paid any annual incentive fees to Property Manager.

Asset Management Fee

The Company will pay Advisor a monthly asset management fee of one-twelfth of 1.0% of the cost of investment of all real estate investments the Company acquires. For the year ended December 31, 2018 and 2017, the Company incurred asset management fees of \$4,197,000 and \$1,913,000, respectively, payable to the Advisor, which are recorded in corporate general and administrative expenses in the accompanying consolidated statements of operations.

Disposition Fee

The Company also pays the Advisor or its affiliates a disposition fee (subject to a limitation if the property was previously owned by Moody I discussed below) in an amount of up to one-half of the brokerage commission paid on the sale of an asset, but in no event greater than 3% of the contract sales price of each property or other investment sold; provided, however, in no event may the aggregate disposition fees paid to the Advisor and any real estate commissions paid to unaffiliated third parties exceed 6% of the contract sales price. During the first year following the consummation of the Mergers, if the Company sells a property that was previously owned by Moody I, then any disposition fee to which the Advisor would be entitled under the Advisory Agreement will be reduced by an amount equal to the portion of the Moody I Advisor Payment attributable to such property. As of December 31, 2018, the Company had not incurred any disposition fees payable to the Advisor.

Operating Expense Reimbursement

The Company will reimburse the Advisor for all expenses paid or incurred by the Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse the Advisor for any amount by which the Company's aggregate operating expenses (including the asset management fee payable to the Advisor) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of the Company's average invested assets, or (2) 25% of the Company's net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of the Company's assets for that period (the "2%/25% Limitation"). Notwithstanding the above, the Company may reimburse the Advisor for expenses in excess of the 2%/25% Limitation if a majority of the Company's independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended December 31, 2018, total operating expenses of the Company were \$6,503,476, which included \$4,861,283 in operating expenses incurred directly by the Company and \$1,642,193 incurred by the Advisor on behalf of the Company. Of the \$6,503,476 in total operating expenses incurred during the four fiscal quarters ended December 31, 2018, \$0 exceeded the 2%/25% Limitation. The Company reimbursed the Advisor \$1,642,000 during four fiscal quarters ended December 31, 2018, which includes reimbursements for quarters prior to the four quarters ended December 31, 2018. As of December 31, 2018, the Company had \$376,000 due from the Advisor for operating expense reimbursement.

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Merger with Moody I

See Note 1, “Organization—Merger with Moody National REIT I, Inc.”

Fort Worth Loan

On August 15, 2017, the OP made a loan in the amount of \$7,106,506 (the “Fort Worth Loan”) to Moody National International-Fort Worth Holding, LLC, an indirect subsidiary of Moody I OP. The loan matured and was retired upon completion of the Mergers. Interest income from the Fort Worth Loan was \$0 and \$55,000 for the year ended December 31, 2018 and 2017, respectively.

Lyndhurst Loan

On September 6, 2017, the OP made a loan in the amount of \$30,647,770 (the “Lyndhurst Loan”) to Moody National 1 Polito Lyndhurst Holding, LLC, an indirect subsidiary of Moody I OP. The loan matured and was retired upon completion of the Mergers. Interest income from the Lyndhurst Loan was \$0 and \$155,000 for the year ended December 31, 2018 and 2017, respectively.

Related Party Mezzanine Note

In March 2018, the unpaid principal balance of the Related Party Mezzanine Note and all accrued and unpaid interest thereon, and all other amounts due under the Related Party Mezzanine Note, were paid in full.

Earnest Money

The Company assigned its earnest money contract in the amount of \$2,000,000 to a related party for consideration paid to the Company of \$2,000,000 during the year ended December 31, 2017.

8. Incentive Award Plan

The Company has adopted an incentive plan (the “Incentive Award Plan”) that provides for the grant of equity awards to its employees, directors and consultants and those of the Company’s affiliates. The Incentive Award Plan authorizes the grant of non-qualified and incentive stock options, restricted stock awards, restricted stock units, stock appreciation rights, dividend equivalents and other stock-based awards or cash-based awards. Shares of common stock will be authorized and reserved for issuance under the Incentive Award Plan. The Company has also adopted an independent directors compensation plan (the “Independent Directors Compensation Plan”) pursuant to which each of the Company’s independent directors was entitled, subject to the Independent Directors Compensation Plan’s conditions and restrictions, to receive an initial grant of 5,000 shares of restricted stock when the Company raised the minimum offering amount of \$2,000,000 in the Offering. Each new independent director who subsequently joins the Company’s board of directors will receive a grant of 5,000 shares of restricted stock upon his or her election to the Company’s board of directors. In addition, on the date of each of the first four annual meetings of the Company’s stockholders at which an independent director is re-elected to the Company’s board of directors, he or she will receive an additional grant of 2,500 shares of restricted stock. Subject to certain conditions, the non-vested shares of restricted stock granted pursuant to the Independent Directors Compensation Plan will vest and become non-forfeitable in four equal quarterly installments beginning on the first day of the first quarter following the date of grant; provided, however, that the restricted stock will become fully vested on the earlier to occur of (1) the termination of the independent director’s service as a director due to his or her death or disability or (2) a change in control of the Company. As of December 31, 2018, there were 1,955,000 common shares remaining available for future issuance under the Incentive Award Plan and the Independent Directors Compensation Plan.

The Company recorded compensation expense related to such shares of restricted stock of \$361,020 and \$227,695 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, there were 7,500 non-vested shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan. The remaining unrecognized compensation expense associated with those 7,500 non-vested shares of \$130,668 will be recognized during the first, second and third quarters of 2019.

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The following is a summary of activity under the Independent Directors Compensation Plan for the years ended December 31, 2018 and 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2016	5,000	\$ 25.00
Shares granted on August 10, 2017	5,000	\$ 27.82
Shares granted on September 27, 2017	10,000	\$ 27.82
Shares vested	<u>(8,750)</u>	\$ 26.21
Balance of non-vested shares as of December 31, 2017	11,250	\$ 27.82
Shares granted on August 13, 2018	10,000	\$ 23.19
Shares vested	<u>(13,750)</u>	\$ 26.98
Balance of non-vested shares as of December 31, 2018	<u>7,500</u>	\$ 23.19

9. Subordinated Participation Interest

Pursuant to the limited partnership agreement for the OP, Moody LPOP II, the holder of the Special Limited Partnership Interests, is entitled to receive distributions equal to 15.0% of the OP's net cash flows, whether from continuing operations, the repayment of loans, the disposition of assets or otherwise, but only after the Company's stockholders (and current and future limited partnership interest holders of the OP other than the former limited partners of Moody I OP) have received, in the aggregate, cumulative distributions equal to their total invested capital plus a 6.0% cumulative, non-compounded annual pre-tax return on such aggregated invested capital. Former limited partners of Moody I OP must have received a cumulative annual return of 8.0%, which is equal to the same return to which such holders were entitled before distributions to the special limited partner of Moody I OP could have been paid under the limited partnership agreement of Moody I OP. In addition, Moody LPOP II is entitled to a separate payment if it redeems its Special Limited Partnership Interests. The Special Limited Partnership Interests may be redeemed upon: (1) the listing of the Company's common stock on a national securities exchange or (2) the occurrence of certain events that result in the termination or non-renewal of the Advisory Agreement, in each case for an amount that Moody LPOP II would have been entitled to receive had the OP disposed of all of its assets at the enterprise valuation as of the date of the event triggering the redemption.

10. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at December 31, 2018, the Company escrows payments required for property improvement plans, real estate taxes, replacement of hotel furniture and fixtures, debt service and rent holdback. The composition of the Company's restricted cash as of December 31, 2018 and 2017 are as follows (in thousands):

	December 31,	
	2018	2017
Property improvement plan	\$ 1,239	\$ 4,018
Real estate taxes	2,894	2,768
Insurance	231	228
Hotel furniture and fixtures	4,168	3,199
Debt service	764	2,913
Seasonality	883	370
Expense deposit	10	10
Rent holdback	15	15
Total restricted cash	<u>\$ 10,204</u>	<u>\$ 13,521</u>

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Franchise Agreements

As of December 31, 2018, all of the Company's hotel properties, including those acquired as part of the Moody I Portfolio, are operated under franchise agreements with initial terms ranging from 10 to 20 years. The franchise agreements allow the properties to operate under the franchisor's brand. Pursuant to the franchise agreements, the Company pays a royalty fee generally between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 1.5% and 4.3% of room revenue. The Company incurred franchise fee expense of approximately \$6,603,000 and \$2,832,000 for the years ended December 31, 2018 and 2017, respectively, which amounts are included in hotel operating expenses in the accompanying consolidated statements of operations.

11. Income Taxes

The Company has formed a TRS that is a C-corporation for federal income tax purposes and uses the asset and liability method of accounting for income taxes. Tax return positions are recognized in the consolidated financial statements when they are "more-likely-than-not" to be sustained upon examination by the taxing authority. Deferred income tax assets and liabilities result from temporary differences. Temporary differences are differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future periods. A valuation allowance may be placed on deferred income tax assets, if it is determined that it is more likely than not that a deferred tax asset may not be realized.

As of December 31, 2018, the Company had operating loss carry-forwards of \$3,599,399.

The Company had deferred tax assets of \$2,303,000 as of December 31, 2018 and 2017, net of a valuation allowance of \$1,194,000 and \$0 as of December 31, 2018 and December 31, 2017, respectively, related to net operating loss carry forwards of the TRS which are included in prepaid expenses and other assets on the consolidated balance sheets. As of December 31, 2018, the TRS had a net operating loss carry-forward of \$15,776,091, of which \$7,292,853 was transferred from Moody I's taxable REIT subsidiaries when they were merged into the Company's TRS on the date of the closing of the Mergers.

The income tax expense (benefit) for the years ended December 31, 2018 and 2017 consisted of the following (in thousands):

	Years ended December 31,	
	2018	2017
Current expense	\$ 158	\$ 56
Deferred expense (benefit)	(1,194)	610
Valuation provision for deferred benefit	1,194	—
Total expense (benefit), net	<u>\$ 158</u>	<u>\$ 666</u>
Federal	\$ (1,194)	\$ 610
Valuation provision for federal taxes	1,194	—
State	158	56
Total tax expense (benefit)	<u>\$ 158</u>	<u>\$ 666</u>

The reconciliation of income tax expense (benefit) to the expected amount computed by applying federal statutory rate to income before income taxes is as follows:

	Years ended December 31,	
	2018	2017
Expected federal tax benefit at statutory rate	\$ (1,998)	\$ (3,020)
Tax impact of REIT election	2,156	3,686
Income tax expense (benefit)	<u>\$ 158</u>	<u>\$ 666</u>

On December 31, 2018, the Company had net deferred tax assets of \$2,303,000 primarily due to past years' federal and state tax operating losses of the TRS. These loss carryforwards will generally expire in 2033 through 2037 if not utilized by then. The Company analyzes state loss carryforwards on a state by state basis and records a valuation allowance when management deems it more likely than not that future results will not generate sufficient taxable income

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in the respective state to realize the deferred tax asset prior to the expiration of the loss carryforwards. Management believes that it is more likely than not that the results of future operations of the TRS will generate sufficient taxable income to realize the deferred tax assets related to federal and state loss carryforwards prior to the expiration of the loss carryforwards. From time to time, the Company may be subjected to federal, state or local tax audits in the normal course of business.

The recently enacted tax reform bill, informally known as the Tax Cuts and Jobs Act, made significant changes to the U.S. federal income tax laws. For example, the top corporate income tax rate was reduced to 21%, and the corporate alternative minimum tax was repealed. Additionally, for taxable years beginning after December 31, 2017, the Tax Cuts and Jobs Act limits interest deductions for businesses, whether in corporate or pass-through form, to the sum of the taxpayer's business interest income for the tax year and 30% of the taxpayer's adjusted taxable income for the tax year, but the tax rules do permit a real estate business, such as a REIT, to elect out of the interest limitation rules in exchange for depreciating its real estate assets using alternative depreciation system principles. Technical corrections or other amendments to, or administrative guidance interpreting, the Tax Cuts and Job Act may be forthcoming at any time. The Company cannot predict the long-term effect of the Tax Cuts and Jobs Act or any future changes on REITs and their stockholders. For the Company, the reduction in the federal corporate tax rate resulted in a change to the net deferred tax assets of the TRS.

12. Subsequent Events

Distributions Declared

On December 31, 2018, the Company declared a distribution in the aggregate amount of \$1,602,154, of which \$1,114,635 was paid in cash on January 15, 2019, \$352,824 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, \$99,395 was paid on February 15, 2019, and \$35,300 was deferred pending the return of letters of transmittal by former Moody I stockholders. On January 31, 2019, the Company declared a distribution in the aggregate amount of \$1,555,304, of which \$1,219,540 was paid in cash on February 15, 2019, \$385,053 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and \$49,289 was paid in cash to reduce deferred dividends pending the return of letters of transmittal by former Moody I stockholders. On February 28, 2019, the Company declared a distribution in the aggregate amount of \$1,466,518 of which \$1,106,960 was paid in cash on March 15, 2019, \$359,718 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and \$160 was paid in cash to reduce deferred dividends pending the return of letters of transmittal by former Moody I stockholders.

Approval of Proposed Acquisition of Residence Inn Houston Medical Center

On March 29, 2019, the Company's board of directors authorized the acquisition by the Company of a 182-unit Residence Inn by Marriott hotel property located in Houston, Texas (the "Residence Inn Houston Medical Center") from an affiliate of Sponsor for an aggregate purchase price, exclusive of closing costs, of approximately \$52.0 million. The Company intends to finance a portion of the purchase price of the Residence Inn Houston Medical Center (i) by assuming an existing loan in the amount of \$29.1 million secured by a lien and security interest in the Residence Inn Houston Medical Center, and (ii) by obtaining an additional unsecured loan in the amount of \$22.9 million from the seller of the Residence Inn Houston Medical Center. The acquisition is subject to various conditions to closing and there can be no guarantee that the Company will complete the acquisition on the terms described above, or at all.

MOODY NATIONAL REIT II, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2017
(in thousands)

Description	Location	Ownership Percent	Encumbrances	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition	Total Cost			Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
				Land	Building, Improvements, and FF&E	Total		Land	Building, Improvements and FF&E	Total ⁽¹⁾			
Residence Inn Austin	Austin, Texas	100.0%	\$ 16,554	\$ 4,310	\$ 23,190	\$ 27,500(2)	\$ 69	\$ 4,310	\$ 23,259	\$ 27,569	\$ 2,274	2014	October 15, 2015
Springhill Suites Seattle	Seattle, Washington	100.0%	44,884	14,040	60,060	74,100	2,026	14,040	62,086	76,126	4,319	2001	May 24, 2016
Homewood Suites Woodlands	The Woodlands, Texas	100.0%	9,066	2,828	14,528	17,356	300	2,828	14,828	17,656	675	2001	September 27, 2017
Hyatt Place Germantown	Germantown, Tennessee	100.0%	7,025	1,874	14,200	16,074	57	1,874	14,257	16,131	654	2009	September 27, 2017
Hyatt Place North Charleston	North Charleston, South Carolina	100.0%	7,158	783	13,022	13,805	123	783	13,145	13,928	596	2009	September 27, 2017
Hampton Inn Austin	Austin, Texas	100.0%	10,687	4,329	14,999	19,328	157	4,329	15,156	19,485	789	1997	September 27, 2017
Residence Inn Grapevine	Grapevine, Texas	100.0%	12,341	2,028	23,217	25,245	350	2,028	23,567	25,595	1,046	2007	September 27, 2017
Courtyard Lyndhurst	Lyndhurst, New Jersey	(3)	-	2,663	36,885	39,548	175	2,663	37,060	39,723	1,655	1990	September 27, 2017
Hilton Garden Inn Austin	Austin, Texas	100.0%	18,401	9,058	20,230	29,288	114	9,058	20,344	29,402	1,068	2002	September 27, 2017
Hampton Inn Frazer	Frazer, Pennsylvania	100.0%	7,994	1,730	13,554	15,284	1,683	1,730	15,237	16,967	852	1998	September 27, 2017
Great Valley Suites Nashville	Nashville, Tennessee	100.0%	41,998	14,805	67,402	82,207	3,374	14,805	70,776	85,581	2,964	2001	September 27, 2017
Homewood Suites Austin	Austin, Texas	100.0%	10,778	4,218	14,617	18,835	749	4,218	15,366	19,584	805	1998	September 27, 2017
TownPlace Suites Fort Worth	Fort Worth, Texas	(3)	-	4,240	7,001	11,241	25	4,240	7,026	11,266	399	1998	September 27, 2017
Hampton Inn Houston	Houston, Texas	100.0%	4,480	3,550	6,410	9,960	2,795	3,550	9,205	12,755	532	1995	September 27, 2017
Total			\$ 191,366	\$70,456	\$ 329,315	\$399,771	\$ 11,997	\$70,456	\$ 341,312	\$411,768	\$ 18,628		

- (1) The aggregate cost of real estate for federal income tax purposes was \$354,176,649 as of December 31, 2018.
(2) Includes gain on acquisition of hotel property of \$2,000,000.
(3) 100% of the Class B membership interests of a joint venture.

MOODY NATIONAL REIT II, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION (CONTINUED)
DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
Real estate:		
Balance at the beginning of the year.....	\$ 403,180	\$ 101,821
Acquisitions.....	—	298,171
Improvements and additions.....	8,588	3,188
Dispositions.....	—	—
Balance at the end of the year.....	<u>\$ 411,768</u>	<u>\$ 403,180</u>
Accumulated depreciation:		
Balance at the beginning of the year.....	\$ 6,545	\$ 1,831
Depreciation.....	12,083	4,714
Dispositions.....	—	—
Balance at the end of the year.....	<u>\$ 18,628</u>	<u>\$ 6,545</u>

EXHIBIT B

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-55778

MOODY NATIONAL REIT II, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

47-1436295
(I.R.S. Employer
Identification No.)

6363 Woodway Drive, Suite 110
Houston, Texas
(Address of Principal Executive Offices)

77057
(Zip Code)

(713) 977-7500

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
None		

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) Yes No has been subject to such filing requirements for the past 90 days.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if a smaller reporting company)		Emerging Growth Company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 5, 2019, there were 12,335,690 shares of the Registrant's common stock issued and outstanding, consisting of 11,791,191 shares of Class A common stock, 123,106 shares of Class I common stock, and 421,393 shares of Class T common stock.

MOODY NATIONAL REIT II, INC.
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**MOODY NATIONAL REIT II, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)**

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
ASSETS		
Investments in hotel properties, net	\$ 442,464	\$ 393,140
Cash and cash equivalents	7,403	8,990
Restricted cash	8,711	10,204
Investment in marketable securities	3,193	—
Accounts receivable, net of allowance for doubtful accounts of \$33 at June 30, 2019 and December 31, 2018	1,287	711
Notes receivable from related parties	—	6,750
Prepaid expenses and other assets	3,534	3,014
Deferred franchise costs, net of accumulated amortization of \$175 and \$134 at June 30, 2019 and December 31, 2018, respectively	892	934
Due from related parties, net	267	1,159
Total Assets	<u>\$ 467,751</u>	<u>\$ 424,902</u>
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized debt issuance costs of \$3,167 and \$3,462 as of June 30, 2019 and December 31, 2018, respectively	\$ 241,342	\$ 227,174
Note payable to related party	12,745	—
Accounts payable and accrued expenses	8,202	8,089
Dividends payable	1,834	1,744
Operating partnership distributions payable	46	47
Total Liabilities	<u>264,169</u>	<u>237,054</u>
Special Limited Partnership Interests	1	1
Commitments and Contingencies		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 100,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value per share; 1,000,000,000 shares authorized, 12,031 and 10,636 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	120	106
Additional paid-in capital	269,037	237,216
Accumulated deficit	(70,337)	(54,674)
Total stockholders' equity	<u>198,820</u>	<u>182,648</u>
Noncontrolling interests in Operating Partnership	4,761	5,199
Total Equity	<u>203,581</u>	<u>187,847</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 467,751</u>	<u>\$ 424,902</u>

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue				
Room revenue.....	\$ 21,795	\$ 21,119	\$ 39,109	\$ 38,466
Other hotel revenue.....	1,279	1,273	2,421	2,473
Total hotel revenue.....	<u>23,074</u>	<u>22,392</u>	<u>41,530</u>	<u>40,939</u>
Interest and dividend income.....	124	364	453	783
Total revenue.....	<u>23,198</u>	<u>22,756</u>	<u>41,983</u>	<u>41,722</u>
Expenses				
Hotel operating expenses.....	14,414	13,081	26,530	24,848
Property taxes, insurance and other.....	1,648	1,330	3,016	2,626
Depreciation and amortization.....	3,495	2,957	6,669	5,879
Acquisition expenses.....	2,212	—	2,212	—
Corporate general and administrative.....	1,508	1,658	3,130	3,699
Total expenses.....	<u>23,277</u>	<u>19,026</u>	<u>41,557</u>	<u>37,052</u>
Operating income (loss)	(79)	3,730	426	4,670
Other expenses (income)				
Interest expense and amortization of debt				
issuance costs.....	3,233	4,299	6,319	8,634
Gain on sale of marketable securities.....	(9)	—	(9)	—
Unrealized loss (gain) on change in fair value of				
investment in marketable securities.....	(126)	—	33	—
Total other expenses.....	<u>3,098</u>	<u>4,299</u>	<u>6,343</u>	<u>8,634</u>
Loss before income taxes	(3,177)	(569)	(5,917)	(3,964)
Income tax expense (benefit).....	46	111	96	(210)
Net loss	(3,223)	(680)	(6,013)	(3,754)
Loss attributable to noncontrolling interests in				
Operating Partnership.....	85	20	163	127
Net loss attributable to common stockholders	<u>\$ (3,138)</u>	<u>\$ (660)</u>	<u>\$ (5,850)</u>	<u>\$ (3,627)</u>
Per-share information – basic and diluted:				
Net loss attributable to common stockholders	<u>\$ (0.27)</u>	<u>\$ (0.07)</u>	<u>\$ (0.52)</u>	<u>\$ (0.40)</u>
Dividends declared	<u>\$ 0.44</u>	<u>\$ 0.44</u>	<u>\$ 0.87</u>	<u>\$ 0.87</u>
Weighted average common shares outstanding	<u>11,725</u>	<u>9,296</u>	<u>11,341</u>	<u>9,048</u>

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENT OF EQUITY
Six months ended June 30, 2019
(in thousands)
(unaudited)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Noncontrolling Interests in Operating Partnership</u>		<u>Total Equity</u>
	<u>Number of Shares</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>Par Value</u>			<u>Number of Units</u>	<u>Value</u>	
Balance at December 31, 2018 ..	—	\$ —	10,636	\$ 106	\$ 237,216	\$ (54,674)	316	\$ 5,199	\$187,847
Issuance of common stock, net of offering costs	—	—	1,425	14	32,372	—	—	—	32,386
Redemption of common stock.....	—	—	(131)	(1)	(3,029)	—	—	—	(3,030)
Issuance of common stock pursuant to dividend reinvestment plan....	—	—	101	1	2,348	—	—	—	2,349
Stock-based compensation	—	—	—	—	130	—	—	—	130
Net loss	—	—	—	—	—	(5,850)	—	(163)	(6,013)
Dividends and distributions declared	—	—	—	—	—	(9,813)	—	(275)	(10,088)
Balance at June 30, 2019	—	\$ —	12,031	\$ 120	\$ 269,037	\$ (70,337)	316	\$ 4,761	\$203,581

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six months ended June 30,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (6,013)	\$ (3,754)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,669	5,879
Amortization of debt issuance costs	600	1,139
Deferred income tax	—	(274)
Gain on sale of marketable securities	(9)	—
Unrealized loss on change in fair value of investment in marketable securities	33	—
Stock-based compensation	130	258
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(576)	(915)
Prepaid expenses and other assets	(520)	(517)
Accounts payable and accrued expenses	113	(656)
Due from related parties	616	899
Net cash provided by operating activities	1,043	2,059
Cash flows from investing activities		
Repayment of mortgage note receivable from related party	—	11,200
Repayment of note receivable from related party	6,750	4,500
Investment in marketable securities	(7,377)	—
Proceeds from the sale of marketable securities	4,160	—
Improvements and additions to hotel properties	(3,950)	(3,895)
Acquisition of hotel property	(350)	—
Net cash (used in) provided by investing activities	(767)	11,805
Cash flows from financing activities		
Proceeds from issuance of common stock	33,097	21,199
Redemptions of common stock	(3,030)	(782)
Offering costs paid	(435)	(1,900)
Dividends paid	(7,375)	(6,257)
Operating partnership distributions paid	(276)	(276)
Repayment of notes payable	(15,227)	(19,474)
Repayment of notes payable to related party	(9,805)	—
Payment of debt issuance costs	(305)	—
Net cash used in financing activities	(3,356)	(7,490)
Net change in cash and cash equivalents and restricted cash	(3,080)	6,374
Cash and cash equivalents and restricted cash at beginning of period	19,194	21,735
Cash and cash equivalents and restricted cash at end of period	\$ 16,114	\$ 28,109
Supplemental Disclosure of Cash Flow Activity		
Interest paid	\$ 5,723	\$ 7,618
Income tax paid	\$ 229	\$ 221
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Increase (decrease) in accrued offering costs due to related party	\$ 276	\$ (491)
Issuance of common stock from dividend reinvestment plan	\$ 2,349	\$ 1,597
Assumption of note payable in connection with acquisition of hotel property	\$ 29,100	\$ —
Note payable to related party issued in connection with acquisition of hotel property	\$ 22,550	\$ —
Dividends payable	\$ 1,834	\$ 1,592
Operating partnership distributions payable	\$ 46	\$ 46

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019
(unaudited)

1. Organization

As discussed in Note 6, “Equity,” Moody National REIT II, Inc. (the “Company”) was initially capitalized by Moody National REIT Sponsor, LLC (the “Sponsor”). The Company’s fiscal year end is December 31.

As of June 30, 2019, the Company owned (1) interests in fifteen hotel properties located in six states comprising a total of 2,123 rooms and (2) investment in marketable securities of approximately \$3.2 million. For more information on the Company’s real estate investments, see Note 3, “Investment in Hotel Properties.”

On January 20, 2015, the Securities and Exchange Commission (the “SEC”) declared the Company’s registration statement on Form S-11 effective, and the Company commenced its initial public offering of up to \$1,100,000,000 in shares of common stock consisting of up to \$1,000,000,000 in shares of the Company’s common stock offered to the public, and up to \$100,000,000 in shares offered to the Company’s stockholders pursuant to its distribution reinvestment plan (the “DRP”).

On June 26, 2017, the SEC declared effective the Company’s post-effective amendment to its registration statement for the Company’s initial public offering, which reallocated the Company’s shares of common stock as Class A common stock, \$0.01 par value per share (“Class A Shares”), Class D common stock, \$0.01 par value per share (“Class D Shares”), Class I common stock, \$0.01 par value per share (“Class I Shares”), and Class T common stock, \$0.01 par value per share (“Class T Shares” and, together with the Class A Shares, the Class D Shares and the Class I Shares, the “Shares”) to be sold on a “best efforts” basis. On January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company’s public offering; provided, however that the Advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through an increased acquisition fee, or “Contingent Advisor Payment,” as described in Note 7, “Related Party Arrangements.”

On January 18, 2018, the Company filed a registration statement on Form S-11 (Registration No. 333-222610) registering \$990,000,000 in any combination of the Shares to be sold on a “best efforts” basis in the Company’s follow-on public offering. The SEC declared the registration statement effective on July 19, 2018. The Company will continue to offer Shares in the follow-on offering on a continuous basis until July 19, 2021, subject to extension for an additional year by our board of directors.

The Company is currently offering the Shares (i) to the public in the Company’s primary offering at a purchase price of \$23.32 per share, which is equal to the estimated net asset value (“NAV”) per share for each class as of December 31, 2018, and (ii) to the Company’s stockholders pursuant to the DRP at a purchase price of \$23.32 per share, which is equal to the estimated NAV per share for each class as of December 31, 2018.

As of June 30, 2019, the Company had received and accepted investors’ subscriptions for and issued 8,510,459 shares in the Company’s initial public offering and follow-on offering, excluding shares issued in connection with the Company’s merger with Moody National REIT I, Inc. and including 393,191 shares pursuant to the DRP, resulting in gross offering proceeds of \$198,665,114. As of June 30, 2019, the Company had received and accepted investors’ subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with the Company’s merger with Moody National REIT I, Inc. and including 214,764 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of \$147,415,625 for the initial public offering. As of June 30, 2019, the Company had received and accepted investors’ subscriptions for and issued 2,384,466 shares in the follow-on offering, including 178,427 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of \$51,249,489 for the follow-on offering.

The Company’s advisor is Moody National Advisor II, LLC (the “Advisor”), a Delaware limited liability company and an affiliate of the Sponsor. Pursuant to an advisory agreement among the Company, the OP (defined below) and the Advisor (the “Advisory Agreement”), and subject to certain restrictions and limitations therein, the Advisor is responsible for managing the Company’s affairs on a day-to-day basis and for identifying and making acquisitions and investments on behalf of the Company.

Substantially all of the Company’s business is conducted through Moody National Operating Partnership II, LP, a Delaware limited partnership (the “OP”). The Company is the sole general partner of the OP. The initial limited partners of the OP were Moody OP Holdings II, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company (“Moody Holdings II”), and Moody National LPOP II, LLC (“Moody LPOP II”), an affiliate of the Advisor. Moody Holdings II initially invested \$1,000 in the OP in exchange for limited partnership interests, and Moody LPOP II has invested \$1,000 in the OP in exchange for a separate class of limited partnership interests (the “Special Limited Partnership Interests”). As the Company accepts subscriptions for shares of common stock, it transfers substantially all of the net proceeds from such sales to the OP as a capital contribution. The limited partnership agreement of the OP provides that the OP will be operated in a manner that will enable the Company to (1) satisfy the

requirements for being classified as a REIT for tax purposes, (2) avoid any federal income or excise tax liability and (3) ensure that the OP will not be classified as a “publicly traded partnership” for purposes of Section 7704 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), which classification could result in the OP being taxed as a corporation, rather than as a partnership. In addition to the administrative and operating costs and expenses incurred by the OP in acquiring and operating real properties, the OP will pay all of the Company’s administrative costs and expenses, and such expenses will be treated as expenses of the OP.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Company’s consolidated financial statements include its accounts and the accounts of its subsidiaries over which it has control. All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Organization and Offering Costs

Organization and offering costs of the Company are paid directly by the Company or incurred by the Advisor on behalf of the Company. Pursuant to the Advisory Agreement between the Company and the Advisor, the Company is obligated to reimburse the Advisor or its affiliates, as applicable, for organization and offering costs incurred by the Advisor associated with each of the Company’s public offerings, provided that within 60 days of the last day of the month in which a public offering ends, the Advisor is obligated to reimburse the Company to the extent aggregate organization and offering costs incurred by the Company in connection with the completed public offering exceed 15.0% of the gross offering proceeds from the sale of the Company’s shares of common stock in the completed public offering. Such organization and offering costs include selling commissions and dealer manager fees paid to a dealer manager, legal, accounting, printing and other offering expenses, including marketing, salaries and direct expenses of the Advisor’s employees and employees of the Advisor’s affiliates and others. Any reimbursement of the Advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by the Advisor. The Company’s organization and offering costs incurred in connection with the Company’s initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

All offering costs, including selling commissions and dealer manager fees, are recorded as an offset to additional paid-in-capital, and all organization costs are recorded as an expense when the Company has an obligation to reimburse the Advisor.

As of June 30, 2019, total offering costs for the initial public offering and the follow-on offering were \$20,055,274, comprised of \$12,333,647 of offering costs incurred directly by the Company and \$7,721,627 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, total offering costs for the initial public offering were \$18,365,295, comprised of \$12,333,647 of offering costs incurred directly by the Company and \$6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, total offering costs for the follow-on offering were \$1,689,980, comprised of \$0 of offering costs incurred directly by the Company and \$1,689,980 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, the Company had \$327,800 due to the Advisor for reimbursable offering costs.

Income Taxes

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. The Company did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the years ended December 31, 2015 and 2014, including not having 100 shareholders for a sufficient number of days in 2015. Prior to qualifying to be taxed as a REIT, the Company was subject to normal federal and state corporation income taxes.

Provided that the Company continues to qualify as a REIT, it generally will not be subject to federal corporate income tax to the extent it distributes its REIT taxable income to its stockholders, so long as it distributes at least 90% of its REIT taxable income (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP) and satisfies the other organizational and operational requirements for qualification as a REIT. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and federal income and excise taxes on its undistributed income. The Company leases the hotels it acquires to a wholly-owned taxable REIT subsidiary (“TRS”) that is subject to federal, state and local income taxes.

The Company accounts for income taxes of its TRS using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period prior to when the new rates become effective. The Company records a valuation allowance for net deferred tax assets that are not expected to be realized.

The Company has reviewed tax positions under GAAP guidance that clarify the relevant criteria and approach for the recognition and measurement of uncertain tax positions. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the consolidated financial statements if it is more likely than not that the tax position will be sustained upon examination. The Company had no material uncertain tax positions as of June 30, 2019.

The preparation of the Company's various tax returns requires the use of estimates for federal and state income tax purposes. These estimates may be subjected to review by the respective taxing authorities. A revision to an estimate may result in an assessment of additional taxes, penalties and interest. At this time, a range in which the Company's estimates may change is not expected to be material. The Company will account for interest and penalties relating to uncertain tax positions in the current period results of operations, if necessary. The Company has tax years 2014 through 2017 remaining subject to examination by various federal and state tax jurisdictions. For more information, see Note 11, "Income Taxes."

Fair Value Measurement

Fair value measures are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Directly or indirectly observable inputs, other than quoted prices in active markets.
- Level 3: Unobservable inputs in which there is little or no market data, which require a reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

- Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach: Amount required to replace the service capacity of an asset (replacement cost).
- Income approach: Techniques used to convert future income amounts to a single amount based on market expectations (including present-value, option-pricing, and excess-earnings models).

The Company's estimates of fair value were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. The Company classifies assets and liabilities in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The Company has elected the fair value option in recording its investment in marketable securities whereby unrealized holding gains and losses on available-for-sale securities are included in earnings. With the exception of the Company's fixed-rate notes receivable from related parties and notes payable, the carrying amounts of other financial instruments, which include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, notes payable, and accounts payable and accrued expenses, approximate their fair values due to their short-term nature. For the fair value of the Company's note receivable from related parties and notes payable, see Note 4 and "Notes Receivable from Related Parties" and Note 5, "Debt."

Concentration of Risk

As of June 30, 2019, the Company had cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. The Company diversifies its cash and cash equivalents with several banking institutions in an attempt to minimize exposure to any one of these institutions. The Company regularly monitors the financial stability of these financial institutions and believes that it is not exposed to any significant credit risk in cash and cash equivalents or restricted cash.

The Company is also exposed to credit risk with respect to its notes receivable from related parties. The failure of any of the borrowers on the notes receivable from related parties to make payments of interest and principal when due, or any other event of default under the notes receivable from related parties, would have an adverse impact on the Company's results of operations.

The Company is exposed to geographic risk in that eight of its fifteen hotel properties are located in one state, Texas.

Valuation and Allocation of Hotel Properties — Acquisition

Upon acquisition, the purchase price of hotel properties is allocated to the tangible assets acquired, consisting of land, buildings and furniture, fixtures and equipment, any assumed debt, identified intangible assets and asset retirement obligations, if any, based on their fair values. Acquisition costs are charged to expense as incurred. Initial valuations are subject to change during the measurement period, but the measurement period ends as soon as the information is available. The measurement period shall not exceed one year from the acquisition date.

Land values are derived from appraisals and building values are calculated as replacement cost less depreciation or estimates of the relative fair value of these assets using discounted cash flow analyses or similar methods. The value of furniture, fixtures and equipment is based on their fair value using replacement costs less depreciation. Any difference between the fair value of the hotel property acquired and the purchase price of the hotel property is recorded as goodwill or gain on acquisition of hotel property.

The Company determines the fair value of any assumed debt by calculating the net present value of the scheduled mortgage payments using interest rates for debt with similar terms and remaining maturities that the Company believes it could obtain at the date of acquisition. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan as interest expense.

In allocating the purchase price of each of the Company's properties, the Company makes assumptions and uses various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets and discount rates used to determine present values. The Company uses Level 3 inputs to value acquired properties. Many of these estimates are obtained from independent third party appraisals. However, the Company is responsible for the source and use of these estimates. These estimates require judgment and are subject to being imprecise; accordingly, if different estimates and assumptions were derived, the valuation of the various categories of the Company's hotel properties or related intangibles could in turn result in a difference in the depreciation or amortization expense recorded in the Company's consolidated financial statements. These variances could be material to the Company's results of operations and financial condition.

Valuation and Allocation of Hotel Properties — Ownership

Investment in hotel properties is recorded at cost less accumulated depreciation. Major improvements that extend the life of an asset are capitalized and depreciated over a period equal to the shorter of the life of the improvement or the remaining useful life of the asset. The costs of ordinary repairs and maintenance are charged to expense when incurred.

Depreciation expense is computed using the straight-line method based upon the following estimated useful lives:

	Estimated Useful Lives (years)
Buildings and improvements	39-40
Exterior improvements	10-20
Furniture, fixtures and equipment	5-10

Impairments

The Company monitors events and changes in circumstances indicating that the carrying amount of a hotel property may not be recoverable. When such events or changes in circumstances are present, the Company assesses potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset from operating activities and from its eventual disposition, to the carrying amount of the asset. In the event that the carrying amount exceeds the estimated future undiscounted cash flows, the Company recognizes an impairment loss to adjust the carrying amount of the asset to estimated fair value for assets held for use and fair value less costs to sell for assets held for sale. There were no such impairment losses for the three and six months ended June 30, 2019 and 2018.

In evaluating a hotel property for impairment, the Company makes several estimates and assumptions, including, but not limited to, the projected date of disposition of the property, the estimated future cash flows of the property during the Company's

ownership and the projected sales price of the property. A change in these estimates and assumptions could result in a change in the estimated undiscounted cash flows or fair value of the Company's hotel property which could then result in different conclusions regarding impairment and material changes to the Company's consolidated financial statements.

Revenue Recognition

Hotel revenues, including room, food, beverage and other ancillary revenues, are recognized as the related services are delivered. Revenue is recorded net of any sales and other taxes collected from customers. Interest income is recognized when earned. Amounts received prior to guest arrival are recorded as advances from the customer and are recognized at the time of occupancy.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand or held in banks and short-term investments with an initial maturity of three months or less at the date of purchase.

Restricted Cash

Restricted cash includes reserves for property taxes, as well as reserves for property improvements, replacement of furniture, fixtures, and equipment and debt service, as required by certain management or mortgage and term debt agreements restrictions and provisions.

Investment in Marketable Securities

Investment in marketable securities of \$3,193,200 at June 30, 2019 consists primarily of common stock investments in other REITs and which are classified as available-for-sale securities and recorded at fair value. The Company has elected the fair value option whereby unrealized holding gains and losses on available-for-sale securities are included in earnings. For the three months ended June 30, 2019 and 2018, unrealized gain on investment in marketable securities was \$125,747 and \$0, respectively. For the six months ended June 30, 2019 and 2018, unrealized loss on investment in marketable securities was \$33,141 and \$0, respectively. For the three months ended June 30, 2019 and 2018, realized gain on investment in marketable securities was \$8,824 and \$0, respectively. For the six months ended June 30, 2019 and 2018, realized gain on investment in marketable securities was \$8,824 and \$0, respectively.

Dividend income is recognized when earned. For the three months ended June 30, 2019 and 2018, dividend income of \$59,400 and \$0, respectively, was recognized and is included in interest and dividend income on the consolidated statements of operations. For the six months ended June 30, 2019 and 2018, dividend income of \$187,770 and \$0, respectively, was recognized and is included in interest and dividend income on the consolidated statements of operations.

Accounts Receivable

The Company takes into consideration certain factors that require judgments to be made as to the collectability of receivables. Collectability factors taken into consideration are the amounts outstanding, payment history and financial strength of the customer, which, taken as a whole, determines the valuation. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Impairment of Notes Receivable from Related Parties

The Company reviews the notes receivable from related parties for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts recorded as assets on the consolidated balance sheets. The Company applies normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment. When a loan is impaired, the Company measures impairment based on the present value of expected cash flows discounted at the loan's effective interest rate against the value of the asset recorded on the consolidated balance sheets. The Company may also measure impairment based on a loan's observable market price or the fair value of collateral, if the loan is collateral dependent. If a loan is deemed to be impaired, the Company records a valuation allowance through a charge to earnings for any shortfall. The Company's assessment of impairment is based on considerable judgment and estimates. The Company did not record a valuation allowance during the three and six months ended June 30, 2019 or 2018.

Deferred Franchise Costs

Deferred franchise costs are recorded at cost and amortized over the term of the respective franchise contract on a straight-line basis. Accumulated amortization of deferred franchise costs was \$175,062 and \$133,518 as of June 30, 2019 and December 31, 2018, respectively.

Expected future amortization of deferred franchise costs as of June 30, 2019 is as follows (all amounts in thousands):

Years Ending December 31,	
2019	\$ 41
2020	83
2021	83
2022	83
2023	80
Thereafter	<u>522</u>
Total	<u>\$ 892</u>

Debt Issuance Costs

Debt issuance costs are presented as a direct deduction from the carrying value of the notes payable on the consolidated balance sheets. Debt issuance costs are amortized as a component of interest expense over the term of the related debt using the straight-line method, which approximates the interest method. Accumulated amortization of debt issuance costs was \$3,602,679 and \$3,003,186 as of June 30, 2019 and December 31, 2018, respectively. Expected future amortization of debt issuance costs as of June 30, 2019 is as follows (all amounts in thousands):

Years Ending December 31,	
2019	\$ 395
2020	568
2021	567
2022	567
2023	522
Thereafter	<u>548</u>
Total	<u>\$ 3,167</u>

Earnings (Loss) per Share

Earnings (loss) per share (“EPS”) is calculated based on the weighted average number of shares outstanding during each period. Basic and diluted EPS are the same for all periods presented. Non-vested shares of restricted common stock totaling 2,500 and 7,500 shares as of June 30, 2019 and December 31, 2018, respectively, held by the Company’s independent directors are included in the calculation of basic EPS because such shares have been issued and participate in dividends.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company adopted this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on the Company’s consolidated financial statements and related disclosures, the Company believes the impact will be minimal to the Company’s ongoing consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities,” which improves the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on the Company’s ongoing consolidated financial statements.

3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company's investment in hotel properties as of June 30, 2019 (all \$ amounts in thousands):

<u>Property Name</u>	<u>Date Acquired</u>	<u>Location</u>	<u>Ownership Interest</u>	<u>Original Purchase Price⁽¹⁾</u>	<u>Rooms</u>	<u>Mortgage Debt Outstanding⁽²⁾</u>
Residence Inn Austin.....	October 15, 2015	Austin, Texas	100%	\$ 27,500	112	\$ 16,427
Springhill Suites Seattle.....	May 24, 2016	Seattle, Washington	100%	74,100	234	44,526
Homewood Suites Woodlands.....	September 27, 2017 ⁽⁵⁾	The Woodlands, Texas	100%	17,356	91	8,991
Hyatt Place Germantown.....	September 27, 2017 ⁽⁵⁾	Germantown, Tennessee	100%	16,074	127	6,946
Hyatt Place North Charleston.....	September 27, 2017 ⁽⁵⁾	North Charleston, South Carolina	100%	13,806	113	7,088
Hampton Inn Austin.....	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	19,328	123	10,590
Residence Inn Grapevine.....	September 27, 2017 ⁽⁵⁾	Grapevine, Texas	100%	25,245	133	12,228
Marriott Courtyard Lyndhurst.....	September 27, 2017 ⁽⁵⁾	Lyndhurst, New Jersey	⁽³⁾	39,547	227	—
Hilton Garden Inn Austin.....	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	29,288	138	18,241
Hampton Inn Great Valley.....	September 27, 2017 ⁽⁵⁾	Frazer, Pennsylvania	100%	15,285	125	7,928
Embassy Suites Nashville.....	September 27, 2017 ⁽⁵⁾	Nashville, Tennessee	100%	82,207	208	41,626
Homewood Suites Austin.....	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	18,835	96	10,690
Townplace Suites Fort Worth.....	September 27, 2017 ⁽⁵⁾	Fort Worth, Texas	⁽⁴⁾	11,242	95	—
Hampton Inn Houston.....	September 27, 2017 ⁽⁵⁾	Houston, Texas	100%	9,958	119	4,428
Residence Inn Houston Medical Center.....	April 29, 2019 ⁽⁶⁾	Houston, Texas	100%	52,000	182	41,845
Totals				<u>\$ 451,771</u>	<u>2,123</u>	<u>\$ 231,554</u>

(1) Excludes closing costs and includes gain on acquisition.

(2) As of June 30, 2019.

(3) The Marriott Courtyard Lyndhurst is owned by MN Lyndhurst Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Marriott Courtyard Lyndhurst is pledged as security for the Term Loan. See Note 5, "Debt."

(4) The Townplace Suites Fort Worth is owned by MN Fort Worth Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Townplace Suites Fort Worth is pledged as security for the Term Loan. See Note 5, "Debt."

(5) Property acquired on September 27, 2017 as a result of the merger of Moody National REIT I, Inc. ("Moody I") with and into the Company (the "Merger") and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I ("Moody I OP"), with and into the OP (the "Partnership Merger," and together with the Merger, the "Mergers").

(6) Includes balance of \$29,100,000 for first mortgage loan and balance of \$12,745,218 for promissory note payable to seller of the Residence Inn Houston Medical Center in the original principal amount of \$22,550,000.

Investment in hotel properties consisted of the following at June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018
Land	\$ 76,936	\$ 70,456
Buildings and improvements	338,637	297,680
Furniture, fixtures and equipment	52,146	43,632
Total cost	467,719	411,768
Accumulated depreciation	(25,255)	(18,628)
Investment in hotel properties, net	<u>\$ 442,464</u>	<u>\$ 393,140</u>

Acquisition of Residence Inn Houston Medical Center

On the April 29, 2019 (“Closing Date”), Moody National Kirby-Houston Holding, LLC, a wholly-owned subsidiary of the OP (“Houston Holding”), acquired fee simple title to the Residence Inn Houston Medical Center (“Residence Inn Houston”) located in Houston, Texas from a related party for an aggregate purchase price, excluding acquisition costs, of \$52,000,000, inclusive of (i) Houston Holding’s assumption as of the Closing Date of an existing mortgage loan from an institutional lender (“Lender”), secured by the Residence Inn Houston, with an outstanding balance as of the Closing Date of \$28,180,000 (“Existing Loan”), and (ii) financing from the Seller in the amount of \$22,900,000 (“Note Payable to Related Party”). See below for an additional discussion of the Existing Loan and the Note Payable to Related Party. In connection with the acquisition of the Residence Inn Houston, Advisor earned an aggregate acquisition fee of \$2,002,000 (inclusive of a \$1,222,000 contingent acquisition fee paid to reimburse Advisor for upfront selling commissions and dealer manager fees paid by Advisor) and a financing coordination fee of \$290,000.

The Residence Inn Houston is a 16-story select-service hotel consisting of 182 guest rooms located in Houston, Texas. The Residence Inn Houston is located in the Texas Medical Center, the world’s largest medical center, and is located adjacent to NRG Park area. The Residence Inn Houston includes a four and a half story structured parking garage.

Houston Holding leases the Residence Inn Houston to Moody National Kirby-Houston MT, LLC (“Master Tenant”), an indirect, wholly-owned subsidiary of OP, pursuant to a Hotel Lease Agreement between Houston Holding and the Master Tenant (“Hotel Lease”). Moody National Hospitality Management, LLC, a related party (“Property Manager”), manages the Residence Inn Houston pursuant to a Hotel Management Agreement between the Property Manager and the Master Tenant (“Management Agreement”), which Management Agreement was assigned to Master Tenant by Seller on the Closing Date.

Existing Loan

On the Closing Date, pursuant to an Assignment and Assumption Agreement, Houston Holding assumed all of the Seller’s rights, duties and obligations under and with respect to the Existing Loan and all loan documents associated therewith, including, without limitation, (i) a Promissory Note, dated September 13, 2017, in the original principal amount of \$29,100,000, evidencing the Existing Loan and payable to the Lender, or the Note, (ii) the Construction Loan Agreement, dated September 13, 2017, between the Seller and the Lender (“Loan Agreement”), and (iii) the Deed of Trust, Security Agreement and Financing Statement, dated September 13, 2017, for the benefit of Lender, securing payment of the Note (“Deed of Trust.”)

The Existing Loan bears interest at a rate of 5% per annum. Payments of interest only will be due on the Existing Loan on a monthly basis through October 1, 2019, and thereafter equal monthly payments of principal and interest in the amount of \$170,116 will be due. Upon and during any event of default by Houston Holdings under the Note, the Loan Agreement or any other loan document relating to the Existing Loan, the Existing Loan will bear interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 17%. The entire outstanding principal balance of the Existing Loan and all accrued interest thereon and all other amounts payable under the Note is due and payable in full on October 1, 2014. Houston Holding may not prepay the Existing Loan, in whole or in part, prior to November 1, 2021. Thereafter, upon at least 30 but not more than 90 days prior written notice to the Lender, Houston Holding may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in full (but not in part), provided that such prepayment will be subject to certain additional prepayment fees as set forth in the Note.

The Note provides for customary events of default, including failure by Houston Holding to pay when due and payable any amounts payable under the terms of the Note. Upon any event of default by Houston Holding, Lender may accelerate the maturity date of the Loan and declare the entire unpaid principal balance of the Loan and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

The performance of the obligations of Houston Holding under the Existing Loan is secured by, among other things, a security interest in the Residence Inn Houston and other collateral granted to the Lender pursuant to the Deed of Trust. Pursuant to payment and completion guaranties in favor of the Lender, Brett C. Moody has agreed to irrevocably and unconditionally guarantee the prompt

and unconditional payment to the Lender and its successors and assigns of all obligations and liabilities of Houston Holding for which Houston Holding may be personally liable with respect to the Existing Loan.

Note Payable to Related Party

On the Closing Date, the OP issued a promissory note payable to Seller in the original principal amount of \$22,550,000, evidencing the note payable to related party (the “Note Payable to Related Party”). The Note Payable to Related Party bears interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 3%. Any amounts payable under the Note Payable to Related Party which are not paid by our operating partnership when due will bear interest at a past due rate equal to the lesser of the maximum rate permitted by applicable law and 18%. On the Closing Date, our operating partnership made a principal payment of \$7,824,082, and beginning on May 15, 2019 and ending on October 15, 2019, our operating partnership will make a monthly principal and interest payment of \$2,000,000. The entire outstanding principal balance of the Note Payable to Related Party, together with all accrued interest thereon and all other amounts payable under the Note Payable to Related Party, is due and payable in full on December 15, 2019. If our operating partnership fails to make when due any payment under the Note Payable to Related Party, our operating partnership will pay to Seller on demand a late fee equal to 5% of the amount of such payment. Upon at least five days prior written notice to the Seller, our operating partnership may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in whole or in part, without penalty. The balance of the Note Payable to Related Party was \$12,745,218 as of June 30, 2019.

The Note Payable to Related Party provides for customary events of default, including failure by our operating partnership to pay when due and payable any amounts payable under the terms of the Note Payable to Related Party. Upon any event of default by our operating partnership, Seller may accelerate the maturity date of the Note Payable to Related Party and declare the entire unpaid principal balance of the Note Payable to Related Party and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

The following table presents a summary of assets acquired and the purchase price consideration in the acquisition of the Residence Inn Houston (in thousands):

Assets acquired at fair value:	
Land	\$ 6,480
Building	40,920
Furniture, fixtures and equipment	4,600
Net assets acquired at fair value	<u>\$ 52,000</u>
Purchase price consideration:	
Cash	\$ 350
Existing Loan	29,100
Note payable to related party	22,550
Purchase price consideration	<u>\$ 52,000</u>

The results of operations of the Residence Inn Houston have been included in the consolidated statement of operations as of the date of acquisition of April 29, 2019. The following unaudited pro forma consolidated financial information for the three and six months ended June 30, 2019 and 2018 is presented as if the Company acquired the Residence Inn Houston on January 1, 2018. This information is not necessarily indicative of what the actual results of operations would have been had the Company completed the acquisition of the Residence Inn Houston on January 1, 2018, nor does it purport to represent the Company’s future operations (in thousands, except per common share amounts):

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	\$ 23,942	\$ 25,172	\$ 45,116	\$ 46,528
Net loss	(891)	(260)	(3,266)	(2,918)
Net loss attributable to common shareholders	(807)	(240)	(3,106)	(2,791)
Net loss per common share - basic and diluted	\$ (0.07)	\$ (0.03)	\$ (0.27)	\$ (0.31)

4. Notes Receivable from Related Party

As of June 30, 2019 and December 31, 2018, the amount of the note receivable from related party was \$0 and \$6,750,000, respectively.

On August 21, 2015, Moody I originated an unsecured loan in the aggregate principal amount of \$9,000,000 (the “Related Party Note”) to Moody National DST Sponsor, LLC, a Texas limited liability company and an affiliate of Sponsor (“DST Sponsor”). Proceeds from the Related Party Note were used by DST Sponsor solely to acquire a commercial real property located in Katy, Texas (the “Subject Property”). The Company acquired the Related Party Note in connection with the Mergers.

On August 15, 2016, the maturity date of the Related Party Note was extended from August 21, 2016 to August 21, 2017 and the origination fee in the amount of \$90,000 and an extension fee in the amount of \$45,000 were paid to Moody I by DST Sponsor. On September 24, 2017, the maturity date was extended to August 21, 2018. On August 30, 2018, the maturity date was extended to April 30, 2019. The Related Party Note was paid in full on April 29, 2019.

Interest income from notes receivable from related parties was \$64,382 and \$210,400 for the three months ended June 30, 2019 and 2018, respectively, and \$264,082 and \$473,300 for the six months ended June 30, 2019 and 2018, respectively. Interest receivable on notes receivable from related parties was \$0 and \$810,000 as of June 30, 2019 and December 31, 2018, respectively.

The estimated fair value of the note receivable from related party as of December 31, 2018 was \$6,750,000. The fair value of the note receivable from related party was estimated based on discounted cash flow analyses using the current incremental lending rates for similar types of lending arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

5. Debt

The Company’s aggregate borrowings are reviewed by the Company’s board of directors at least quarterly. Under the Company’s Articles of Amendment and Restatement (as amended, the “Charter”), the Company is prohibited from borrowing in excess of 300% of the value of the Company’s net assets. “Net assets” for purposes of this calculation is defined to be the Company’s total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. However, the Company may temporarily borrow in excess of these amounts if such excess is approved by a majority of the Company’s independent directors and disclosed to stockholders in the Company’s next quarterly report, along with an explanation for such excess. As of June 30, 2019, the Company’s debt levels did not exceed 300% of the value of the Company’s net assets, as defined above.

As of June 30, 2019 and December 31, 2018, the Company’s mortgage notes payable secured by the respective assets, consisted of the following (all \$ amounts in thousands):

Loan	Principal as of June 30, 2019	Principal as of December 31, 2018	Interest Rate at June 30, 2019	Maturity Date
Residence Inn Austin ⁽¹⁾	\$ 16,427	\$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle ⁽¹⁾	44,526	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands ⁽¹⁾	8,991	9,066	4.690%	April 11, 2025
Hyatt Place Germantown ⁽¹⁾	6,946	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston ⁽¹⁾	7,088	7,158	5.193%	August 1, 2023
Hampton Inn Austin ⁽¹⁾	10,590	10,687	5.426%	January 6, 2024
Residence Inn Grapevine ⁽¹⁾	12,228	12,341	5.250%	April 6, 2024
Hilton Garden Inn Austin ⁽¹⁾	18,241	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley ⁽¹⁾	7,928	7,994	4.700%	April 11, 2025
Embassy Suites Nashville ⁽¹⁾	41,626	41,998	4.2123%	July 11, 2025
Homewood Suites Austin ⁽¹⁾	10,690	10,778	4.650%	August 11, 2025
Hampton Inn Houston ⁽¹⁾	4,428	4,480	7.500%	April 28, 2023
Residence Inn Houston Medical Center ⁽⁴⁾	29,100	—	5.000%	October 1, 2024
			30-day	
			LIBOR plus	
Term Loan ⁽²⁾	25,700	26,300	3.750%	September 27, 2019
			30-day	
			LIBOR plus	
Short Term Loan ⁽³⁾	—	12,970	2.50%	April 24, 2019
Total notes payable	244,509	230,636		
Less unamortized debt issuance costs	(3,167)	(3,462)		
Total notes payable, net of unamortized debt issuance costs	\$ 241,342	\$ 227,174		

- (1) Monthly payments of principal and interest are due and payable until the maturity date.
- (2) Monthly payments of principal and interest are due and payable until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019, as discussed below.
- (3) Monthly payments of principal and interest were due and payable until the maturity date. All unpaid principal and interest thereon was repaid in full on April 24, 2019, the maturity date.
- (4) Monthly payments of interest due and payable until October 2019. Monthly payments of principal and interest due and payable beginning in November 2019 until the maturity date.

Hotel properties secure their respective loans. The Term Loan is partially secured by Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and is partially unsecured.

Scheduled maturities of the Company's notes payable as of June 30, 2019 are as follows (all amounts in thousands):

Years ending December 31,		
2019	\$	27,464
2020		4,043
2021		4,270
2022		4,479
2023		21,095
Thereafter		183,158
Total	<u>\$</u>	<u>244,509</u>

Term Loan Agreement

On September 27, 2017, the OP, as borrower, the Company and certain of the Company's subsidiaries, as guarantors, and KeyBank National Association ("KeyBank," and together with any other lender institutions that may become parties thereto, the "Lenders"), as agent and lender, entered into a term loan agreement (as amended, the "Term Loan Agreement"). Pursuant to the Term Loan Agreement, the Lenders have made a term loan to the OP in the principal amount of \$70.0 million (the "Term Loan"). Capitalized terms used in this description of the Term Loan and not defined herein have the same meaning as in the Term Loan Agreement. The Company used proceeds from the Term Loan to pay the cash consideration in connection with the Mergers, other costs and expenses related to the Mergers and for other corporate purposes. The outstanding principal of the Term Loan will initially bear interest, payable monthly, at either (i) 6.25% per year over the base rate, which is defined in the Term Loan Agreement as the greatest of (a) the fluctuating annual rate of interest announced from time to time by the Agent at the Agent's Head Office as its "prime rate," (b) the then applicable London Interbank Offered Rate ("LIBOR") for a one month Interest Period plus one percent (1.00%), or (c) one half of one percent (0.5%) above the Federal Funds Effective Rate or (ii) 7.25% per year over the LIBOR rate for the applicable Interest Period, but upon reduction of the outstanding principal balance of the Term Loan to a specified level, the margins over the base rate or LIBOR rate will be reduced to 2.95% and 3.95%, respectively. As a condition to the funding of the Term Loan, the OP has entered into an interest rate cap arrangement with KeyBank that caps LIBOR at 1.75% until the initial Maturity Date with respect to \$26.0 million of the principal of the Term Loan. The Company began making principal payments of \$1.5 million per month in November 2017.

On March 28, 2018, the parties to the Term Loan Agreement entered into a letter agreement, or the Term Loan Letter Agreement, pursuant to which the parties thereto agreed to change the commencement of the Company's obligation under the Term Loan Agreement to raise \$10 million per quarter in gross offering proceeds to the calendar quarter June 30, 2018. The Company satisfied such obligation with respect to the calendar quarter ended June 30, 2018.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018. On October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan, subject to satisfaction of certain conditions, including payment of an extension fee in the amount of 0.5% of the then outstanding principal amount of the Term Loan. The Outstanding Balance of \$26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the maturity date of the Term Loan. In addition, the Term Loan originally provided for monthly interest payments, for mandatory prepayments of principal from the proceeds of certain capital events, and for monthly payments of principal in an amount equal to the greater of (i) 50% the OP's Consolidated Net Cash Flow or (ii) \$1,500,000. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal will be \$100,000 per month, and the margins over the base rate or LIBOR rate will be 2.75% and 3.75%, respectively. The Term Loan may be prepaid at any time, in whole or in part, without premium or penalty, as described in the Term Loan Agreement. Upon the occurrence of an event of default, the Lenders may accelerate the payment of the Outstanding Balance.

The performance of the Company's obligations under the Term Loan Agreement is secured by, among other things, mortgages on the Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and by pledges of certain portions of the ownership interests in certain subsidiaries of the OP. Pursuant to a Guaranty Agreement in favor of KeyBank, the Company and certain of its subsidiaries, including the owners of the Lyndhurst hotel property and Fort Worth hotel property, will be fully and personally liable for the payment and performance of the obligations set forth in the Term Loan Agreement and all other loan documents, including the payment of all indebtedness and obligations due under the Term Loan Agreement.

The Term Loan Agreement also contains various customary covenants, including but not limited to financial covenants, covenants requiring monthly deposits in respect of certain property costs, such as taxes, furniture, fixtures and equipment, and insurance, covenants imposing restrictions on indebtedness and liens, and restrictions on investments and participation in other asset disposition, merger or business combination or dissolution transactions.

Failure of the Company to comply with financial and other covenants contained in its mortgage loan or the Term Loan could result from, among other things, changes in results of operations, the incurrence of additional debt or changes in general economic conditions.

If the Company violates financial and other covenants contained in any of the mortgage loans or Term Loan described above, the Company may attempt to negotiate waivers of the violations or amend the terms of the applicable mortgage loan or the Term Loan with the lenders thereunder; however, the Company can make no assurance that it would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to the Company. If a default under the mortgage loans or the Term Loan were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offering of debt securities, or additional equity financings. If the company is unable to refinance its debt on acceptable terms, including at maturity of the mortgage loans or the Term Loan, it may be forced to dispose of the hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increase interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to stockholders.

Requirements associated with a mortgage loan to deposit and disburse operating receipts in a specified manner may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to the Company.

As of June 30, 2019, the Company was in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans secured by the Company's properties or the Term Loan.

Short Term Loan

On October 24, 2018, the Company and the OP issued a promissory note in favor of Green Bank, N.A. in the original principal amount of \$16,000,000 (the "Short Term Loan"). The proceeds of the promissory note were used to retire a portion of the Term Loan, resulting in a balance of \$26.5 million for the Term Loan as of October 24, 2018. The note bore interest at an annual rate equal to the one-month LIBOR plus 2.5% and the Company and the OP were collectively required to make a monthly payment on the outstanding principal and interest of the promissory note equal to the greater of \$1,500,000 and 50% of our consolidated net cash flow. The entire outstanding principle amount of the Short Term Loan and all accrued interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

The estimated fair value of the Company's notes payable as of June 30, 2019 and December 31, 2018 was \$245,000,000 and \$231,000,000, respectively. The fair value of the notes payable was estimated based on discounted cash flow analyses using the current incremental borrowing rates for similar types of borrowing arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

6. Equity

Capitalization

Under its Charter, the Company has the authority to issue 1,000,000,000 shares of common stock and 100,000,000 shares of preferred stock. All shares of such stock have a par value of \$0.01 per share. On August 15, 2014, the Company sold 8,000 shares of common stock to the Sponsor at a purchase price of \$25.00 per share for an aggregate purchase price of \$200,000, which was paid in cash. As of June 30, 2019, there were a total of 12,029,983 shares of the Company's common stock issued and outstanding, including 8,510,459 shares, net of redemptions, issued in the Company's public offerings, 3,466,524 shares, net of redemptions, issued in connection with the Merger, the 8,000 shares sold to Sponsor and 45,000 shares of restricted stock issued to the Company's directors, as discussed in Note 8, "Incentive Award Plan," as follows:

Class	Shares Outstanding as of June 30, 2019
Class A Shares	11,507,016
Class T Shares	403,911
Class I Shares	119,056
Total	12,029,983

The Company's board of directors is authorized to amend the Charter without the approval of the stockholders to increase the aggregate number of authorized shares of capital stock or the number of shares of any class or series that the Company has authority to issue.

Distributions

The Company's board of directors has authorized and declared a distribution to its stockholders for 2019 and 2018 that will be (1) calculated daily and reduced for class-specific expenses; (2) payable in cumulative amounts on or before the 15th day of each calendar month to stockholders of record as of the last day of the previous month; and (3) calculated at a rate of \$1.7528 per share of the Company's common stock per year, or approximately \$0.00480 per share per day, before any class-specific expenses. The Company first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three and six months ended June 30, 2019 and 2018 (in thousands):

Period	Cash Distribution	Distribution Paid Pursuant to DRP⁽¹⁾	Total Amount of Distribution
First Quarter 2019	\$ 3,517	\$ 1,121	\$ 4,638
Second Quarter 2019	3,858	1,228	5,086
Total	<u>\$ 7,375</u>	<u>\$ 2,349</u>	<u>\$ 9,724</u>
First Quarter 2018	\$ 3,218	\$ 634	\$ 3,852
Second Quarter 2018	3,039	963	4,002
Total	<u>\$ 6,257</u>	<u>\$ 1,597</u>	<u>\$ 7,854</u>

(1) Amount of distributions paid in shares of common stock pursuant to the DRP.

Noncontrolling Interest in Operating Partnership

Noncontrolling interest in the OP at June 30, 2019 and December 31, 2018 was \$4,761,581 and \$5,199,310, respectively, which represented 316,037 common units in the OP issued in connection with the acquisition of the Springhill Suites Seattle and the Partnership Merger, and is reported in equity in the consolidated balance sheets. Loss from the OP attributable to these noncontrolling interests was \$84,793 and \$20,110 for the three months ended June 30, 2019 and 2018, respectively, and was \$163,031 and \$126,703 for the six months ended June 30, 2019 and 2018, respectively.

7. Related Party Arrangements

Pursuant to the Advisory Agreement, the Advisor and certain affiliates of Advisor receive fees and compensation in connection with the Offering and the acquisition, management and sale of the Company's real estate investments. In addition, in exchange for \$1,000 and in consideration of services to be provided by the Advisor, the OP has issued an affiliate of the Advisor, Moody LPOP II, a separate, special limited partnership interest, in the form of Special Limited Partnership Interests. For further detail, please see Note 9, "Subordinated Participation Interest."

Sales Commissions and Dealer Manager Fees

From January 1, 2017 through June 12, 2017, the Company paid Moody Securities an up-front selling commission of up to 7.0% of the gross proceeds of what are now the Class A Shares sold in the primary offering and a dealer manager fee of up to 3.0% of the gross proceeds of what are now the Class A Shares sold in the primary offering. Beginning on June 12, 2017, the Company reallocated its common shares into four separate share classes, Class A Shares, Class T Shares, Class I Shares and Class D Shares, with the differing fees for each class of shares

Beginning January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's public offering; provided, however, that the Advisor intends to recoup the funding of such amounts through the Contingent Advisor Payment (described below). In connection with the implementation of the Contingent Advisor Payment, the Company reduced the up-front selling commission paid with respect to the Class A Shares from up to 7.0% to up to 6.0% of the gross proceeds of the Class A Shares sold in the primary offering and reduced the dealer manager fee paid with respect to the Class A Shares from up to 3.0% to up to 2.5% of the gross proceeds of the Class A Shares sold in the primary offering. As of June 30, 2019, the Company and the Advisor had paid Moody Securities \$9,423,133 in selling commissions and trailing stockholder servicing fees related to the offering and \$2,099,018 in dealer manager fees related to the offering, which amounts have been recorded as a reduction to additional paid-in capital in the consolidated balance sheets and \$5,214,191 of which could potentially be recouped by the Advisor at a later date through the Contingent Advisor Payment.

Organization and Offering Expenses

The Advisor will receive reimbursement for organizational and offering expenses incurred on the Company's behalf, but only to the extent that such reimbursements do not exceed actual expenses incurred by Advisor and do not cause the cumulative selling commissions, dealer manager fees, stockholder servicing fees and other organization and offering expenses borne by the Company to exceed 15.0% of gross offering proceeds from the sale of shares in the Company's follow-on offering as of the date of reimbursement.

As of June 30, 2019, total offering costs for the initial public offering and the follow-on offering were \$20,055,274, comprised of \$12,333,647 of offering costs incurred directly by the Company and \$7,721,627 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, total offering costs for the initial public offering were \$18,365,295, comprised of \$12,333,647 of offering costs incurred directly by the Company and \$6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, total offering costs for the follow-on offering were \$1,689,980, comprised of \$0 of offering costs incurred directly by the Company and \$1,689,980 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, the Company had \$327,800 due from the Advisor for reimbursable offering costs.

Acquisition Fees

As of January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees in connection with the Company's public offering. In connection therewith, as of January 16, 2018, the acquisition fee payable to the Advisor was increased from 1.5% to up to a maximum of 3.85% of (1) the cost of all investments the Company acquires (including the Company's pro rata share of any indebtedness assumed or incurred in respect of the investment and exclusive of acquisition and financing coordination fees), (2) the Company's allocable cost of investments acquired in a joint venture (including the Company's pro rata share of the purchase price and the Company's pro rata share of any indebtedness assumed or incurred in respect of that investment and exclusive of acquisition fees and financing coordination fees) or (3) the amount funded by the Company to acquire or originate a loan or other investment, including mortgage, mezzanine or bridge loans (including any third-party expenses related to such investment and exclusive of acquisition fees and financing coordination fees). The up to 3.85% acquisition fee consists of (i) a 1.5% base acquisition fee and (ii) up to an additional 2.35% contingent acquisition fee (the "Contingent Advisor Payment"). The 1.5% base acquisition fee will always be payable upon the acquisition of an investment by the Company, unless the receipt thereof is waived by the Advisor. The amount of the Contingent Advisor Payment to be paid in connection with the closing of an acquisition will be reviewed on an acquisition-by-acquisition basis and such payment shall not exceed the then-outstanding amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees at the time of such closing. For purposes of determining the amount of Contingent Advisor Payment payable, the amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees and considered "outstanding" will be reduced by the amount of the Contingent Advisor Payment previously paid and taking into account the amount of the Contingent Advisor Holdback. The Advisor may waive or defer all or a portion of the acquisition fee at any time and from time to time, in the Advisor's sole discretion. For the three months ended June 30, 2019 and 2018, the Company incurred acquisition fees of \$2,002,000, composed of a base acquisition fee of \$780,000 and a contingent acquisition fee of \$1,222,000, and \$0, respectively, and for the six months ended June 30, 2019 and 2018, the Company incurred acquisition fees of \$2,002,000, composed of a base acquisition fee of \$780,000 and a contingent acquisition fee of \$1,222,000, and \$0, respectively, payable to Advisor, which are recorded in the accompanying consolidated statements of operations.

Reimbursement of Acquisition Expenses

The Advisor may also be reimbursed by the Company for actual expenses related to the evaluation, selection and acquisition of real estate investments, regardless of whether the Company actually acquires the related assets. The Company did not reimburse the Advisor for any acquisition expenses during the three and six months ended June 30, 2019 and 2018.

Financing Coordination Fee

The Advisor also receives financing coordination fees of 1% of the amount available under any loan or line of credit made available to the Company and 0.75% of the amount available or outstanding under any refinanced loan or line of credit. The Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. For the three months ended June 30, 2019 and 2018, the Company incurred financing coordination fees of \$290,000 and \$0, respectively, and for the six months ended June 30, 2019 and 2018, the Company incurred financing coordination fees of \$290,000 and \$0, respectively, payable to Advisor, which are recorded in the accompanying consolidated statements of operations.

Property Management Fee

The Company pays Moody National Hospitality Management, LLC (“Property Manager”) a monthly hotel management fee equal to 4.0% of the monthly gross operating revenues from the properties managed by Property Manager for services it provides in connection with operating and managing properties. The hotel management agreements between the Company and the Property Manager generally have initial terms of ten years. Property Manager may pay some or all of the compensation it receives from the Company to a third-party property manager for management or leasing services. In the event that the Company contracts directly with a non-affiliated third-party property manager, the Company will pay Property Manager a market-based oversight fee. The Company will reimburse the costs and expenses incurred by Property Manager on the Company’s behalf, including legal, travel and other out-of-pocket expenses that are directly related to the management of specific properties, but the Company will not reimburse Property Manager for general overhead costs or personnel costs other than employees or subcontractors who are engaged in the on-site operation, management, maintenance or access control of the properties. For the three months ended June 30, 2019 and 2018, the Company paid the Property Manager property management fees of \$922,972 and \$894,772, respectively, and accounting fees of \$107,500 and \$105,000. For the six months ended June 30, 2019 and 2018, the Company paid the Property Manager property management fees of \$1,661,220 and \$1,636,681, respectively, and accounting fees of \$212,500 and \$210,000, respectively, which are included in hotel operating expenses in the accompanying consolidated statements of operations.

The Company pays an annual incentive fee to Property Manager. Such annual incentive fee is equal to 15% of the amount by which the operating profit from the properties managed by Property Manager for such fiscal year (or partial fiscal year) exceeds 8.5% of the total investment of such properties. Property Manager may pay some or all of this annual incentive fee to third-party sub-property managers for management services. For purposes of this annual incentive fee, “total investment” means the sum of (i) the price paid to acquire a property, including closing costs, conversion costs, and transaction costs; (ii) additional invested capital and (iii) any other costs paid in connection with the acquisition of the property, whether incurred pre- or post-acquisition. As of June 30, 2019, the Company had not paid any annual incentive fees to Property Manager.

Asset Management Fee

The Company pays the Advisor a monthly asset management fee of one-twelfth of 1.0% of the cost of investment of all real estate investments the Company acquires. For the three months ended June 30, 2019 and 2018, the Company incurred asset management fees of \$1,136,000 and \$1,058,000, respectively, and for the six months ended June 30, 2019 and 2018, the Company incurred asset management fees of \$2,182,000 and \$2,122,000, respectively, payable to Advisor, which are recorded in corporate general and administrative expenses in the accompanying consolidated statements of operations.

Disposition Fee

The Company also pays the Advisor or its affiliates a disposition fee in an amount of up to one-half of the brokerage commission paid on the sale of an asset, but in no event greater than 3% of the contract sales price of each property or other investment sold; provided, however, in no event may the aggregate disposition fees paid to the Advisor and any real estate commissions paid to unaffiliated third parties exceed 6% of the contract sales price. As of June 30, 2019, the Company had not incurred any disposition fees payable to the Advisor.

Operating Expense Reimbursement

The Company will reimburse the Advisor for all expenses paid or incurred by the Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse the Advisor for any amount by which the Company’s aggregate operating expenses (including the asset management fee payable to the Advisor) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of the Company’s average invested assets, or (2) 25% of the Company’s net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of the Company’s assets for that period (the “2%/25% Limitation”). Notwithstanding the above, the Company may reimburse the Advisor for expenses in excess of the 2%/25% Limitation if a majority of the Company’s independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended June 30, 2019, total operating expenses of the Company were \$6,120,146, which included \$4,811,745 in operating expenses incurred directly by the Company and \$1,308,401 incurred by the Advisor on behalf of the Company. Of the \$6,120,146 in total

operating expenses incurred during the four fiscal quarters ended June 30, 2019, \$0 exceeded the 2%/25% Limitation. The Company reimbursed the Advisor \$1,308,000 during the four fiscal quarters ended June 30, 2019. As of June 30, 2019, the Company had \$612,000 due from the Advisor for operating expense reimbursement.

8. Incentive Award Plan

The Company has adopted an incentive plan (the “Incentive Award Plan”) that provides for the grant of equity awards to its employees, directors and consultants and those of the Company’s affiliates. The Incentive Award Plan authorizes the grant of non-qualified and incentive stock options, restricted stock awards, restricted stock units, stock appreciation rights, dividend equivalents and other stock-based awards or cash-based awards. Shares of common stock will be authorized and reserved for issuance under the Incentive Award Plan. The Company has also adopted an independent directors compensation plan (the “Independent Directors Compensation Plan”) pursuant to which each of the Company’s independent directors was entitled, subject to the Independent Directors Compensation Plan’s conditions and restrictions, to receive an initial grant of 5,000 shares of restricted stock when the Company raised the minimum offering amount of \$2,000,000 in the Offering. Each new independent director who subsequently joins the Company’s board of directors will receive a grant of 5,000 shares of restricted stock upon his or her election to the Company’s board of directors. In addition, on the date of each of the first four annual meetings of the Company’s stockholders at which an independent director is re-elected to the Company’s board of directors, he or she will receive an additional grant of 2,500 shares of restricted stock. Subject to certain conditions, the non-vested shares of restricted stock granted pursuant to the Independent Directors Compensation Plan will vest and become non-forfeitable in four equal quarterly installments beginning on the first day of the first quarter following the date of grant; provided, however, that the restricted stock will become fully vested on the earlier to occur of (1) the termination of the independent director’s service as a director due to his or her death or disability or (2) a change in control of the Company. As of June 30, 2019, there were 1,955,000 common shares remaining available for future issuance under the Incentive Award Plan and the Independent Directors Compensation Plan.

The Company recorded compensation expense related to such shares of restricted stock of \$65,334 and \$129,894 for the three months ended June 30, 2019 and 2018, respectively, and \$129,950 and \$258,361 for the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, there were 2,500 non-vested shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan. The remaining unrecognized compensation expense associated with those 2,500 non-vested shares of \$718 will be recognized during the third quarter of 2019.

The following is a summary of activity under the Independent Directors Compensation Plan for the six months ended June 30, 2019 and year ended December 31, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2017.....	11,250	\$ 27.82
Shares granted on August 13, 2018.....	10,000	\$ 23.19
Shares vested.....	<u>(13,750)</u>	\$ 26.98
Balance of non-vested shares as of December 31, 2018.....	7,500	\$ 23.19
Shares vested.....	<u>(5,000)</u>	\$ 23.19
Balance of non-vested shares as of June 30, 2019.....	<u>2,500</u>	\$ 23.19

9. Subordinated Participation Interest

Pursuant to the limited partnership agreement for the OP, Moody LPOP II, the holder of the Special Limited Partnership Interests, is entitled to receive distributions equal to 15.0% of the OP’s net cash flows, whether from continuing operations, the repayment of loans, the disposition of assets or otherwise, but only after the Company’s stockholders (and current and future limited partnership interest holders of the OP other than the former limited partners of Moody I OP) have received, in the aggregate, cumulative distributions equal to their total invested capital plus a 6.0% cumulative, non-compounded annual pre-tax return on such aggregated invested capital. Former limited partners of Moody I OP must have received a cumulative annual return of 8.0%, which is equal to the same return to which such holders were entitled before distributions to the special limited partner of Moody I OP could have been paid under the limited partnership agreement of Moody I OP. In addition, Moody LPOP II is entitled to a separate payment if it redeems its Special Limited Partnership Interests. The Special Limited Partnership Interests may be redeemed upon: (1) the listing of the Company’s common stock on a national securities exchange or (2) the occurrence of certain events that result in the termination or non-renewal of the Advisory Agreement, in each case for an amount that Moody LPOP II would have been entitled to receive had the OP disposed of all of its assets at the enterprise valuation as of the date of the event triggering the redemption.

10. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at June 30, 2018, the Company escrows payments required for property improvement plans, real estate taxes, replacement of hotel furniture and fixtures, debt service and rent holdback. The composition of the Company's restricted cash as of June 30, 2019 and December 31, 2018 are as follows (in thousands):

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Property improvement plan	\$ 189	\$ 1,239
Real estate taxes	2,652	2,894
Insurance	120	231
Hotel furniture and fixtures	4,205	4,168
Debt service	863	764
Seasonality	657	883
Expense deposit	10	10
Rent holdback	15	15
Total restricted cash	<u>\$ 8,711</u>	<u>\$ 10,204</u>

Franchise Agreements

As of June 30, 2019, all of the Company's hotel properties, including those acquired as part of the Moody I Portfolio, are operated under franchise agreements with initial terms ranging from 10 to 20 years. The franchise agreements allow the properties to operate under the franchisor's brand. Pursuant to the franchise agreements, the Company pays a royalty fee generally between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 1.5% and 4.3% of room revenue. The Company incurred franchise fee expense of approximately \$2,039,870 and \$1,856,199 for the three months ended June 30, 2019 and 2018, respectively, and \$3,620,576 and \$3,421,650 for the six months ended June 30, 2019 and 2018, respectively, which amounts are included in hotel operating expenses in the accompanying consolidated statements of operations.

11. Income Taxes

The Company has formed a TRS that is treated as a C-corporation for federal income tax purposes and uses the asset and liability method of accounting for income taxes. Tax return positions are recognized in the consolidated financial statements when they are "more-likely-than-not" to be sustained upon examination by the taxing authority. Deferred income tax assets and liabilities result from temporary differences. Temporary differences are differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future periods. A valuation allowance may be placed on deferred income tax assets, if it is determined that it is more likely than not that a deferred tax asset may not be realized.

As of June 30, 2019, the Company had operating loss carry-forwards of \$5,979,914.

The Company had deferred tax assets of \$2,303,000 as of June 30, 2019 and December 31, 2018, net of a valuation allowance of \$2,020,000 and \$1,194,000 as of June 30, 2019 and December 31, 2018, respectively, related to net operating loss carry forwards of the TRS which are included in prepaid expenses and other assets on the consolidated balance sheets. As of June 30, 2019, the TRS had a net operating loss carry-forward of \$16,738,064, of which \$7,292,853 was transferred from Moody I's taxable REIT subsidiaries when they were merged into the Company's TRS on the date of the closing of the Mergers.

The income tax expense (benefit) for the three and six months ended June 30, 2019 and 2018 consisted of the following (in thousands):

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current expense	\$ 46	\$ 55	\$ 96	\$ 64
Deferred expense (benefit)	(358)	56	(826)	(274)
Valuation provision for deferred benefit	358	—	826	—
Total expense (benefit)	<u>\$ 46</u>	<u>\$ 111</u>	<u>\$ 96</u>	<u>\$ (210)</u>
Federal	\$ (358)	\$ 56	\$ (826)	\$ (274)
Valuation provision for federal taxes	358	—	826	—
State	46	55	96	64
Total tax expense (benefit)	<u>\$ 46</u>	<u>\$ 111</u>	<u>\$ 96</u>	<u>\$ (210)</u>

On June 30, 2019, the Company had net deferred tax assets of \$2,303,000 primarily due to past years' federal and state tax operating losses of the TRS. These loss carryforwards will generally expire in 2033 through 2038 if not utilized by then. The Company analyzes state loss carryforwards on a state by state basis and records a valuation allowance when management deems it more likely than not that future results will not generate sufficient taxable income in the respective state to realize the deferred tax asset prior to the expiration of the loss carryforwards. Management believes that it is more likely than not that the results of future operations of the TRS will generate sufficient taxable income to realize the deferred tax assets, in excess of the valuation allowance, related to federal and state loss carryforwards prior to the expiration of the loss carryforwards and has determined that no valuation allowance is necessary. From time to time, the Company may be subjected to federal, state or local tax audits in the normal course of business.

12. Subsequent Events

Distributions Declared

On June 30, 2019, the Company declared a distribution in the aggregate amount of \$1,718,046, of which \$1,302,682 was paid in cash on July 15, 2019, \$415,364 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and \$4,568 was paid to reduce deferred distribution pending the return of letters of transmittal by former Moody I stockholders. On July 31, 2019, the Company declared a distribution in the aggregate amount of \$1,761,445, which is scheduled to be paid in cash and pursuant to the DRP in the form of additional shares of the Company's common stock on or about August 15, 2019.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements of Moody National REIT II, Inc. and the notes thereto. As used herein, the terms "we," "our," "us" and "our company" refer to Moody National REIT II, Inc. and, as required by context, Moody National Operating Partnership II, LP, a Delaware limited partnership, which we refer to as our "operating partnership," and to their respective subsidiaries. References to "shares" and "our common stock" refer to the shares of our common stock.

Forward-Looking Statements

Certain statements included in this quarterly report on Form 10-Q, or this Quarterly Report, that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terms.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs, which involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to raise capital in our ongoing public offering;
- our ability to effectively deploy the proceeds raised in our public offering;
- our ability to obtain financing on acceptable terms;
- our levels of debt and the terms and limitations imposed on us by our debt agreements;
- our ability to identify and acquire real estate and real estate-related assets on selling terms that are favorable to us;
- our ability to effectively integrate and manage our expanded operations following the consummation of our merger with Moody National REIT I, Inc.;

- risks inherent in the real estate business, including the lack of liquidity for real estate and real estate-related assets on terms that are favorable to us;
- changes in demand for rooms at our hotel properties;
- our ability to compete in the hotel industry;
- adverse developments affecting our sponsor and its affiliates;
- the availability of cash flow from operating activities for distributions;
- changes in economic conditions generally and the real estate and debt markets specifically;
- conflicts of interest arising out of our relationship with our advisor and its affiliates;
- legislative or regulatory changes, including changes to the laws governing the taxation of REITs (as defined below);
- the availability of capital; and
- changes in interest rates.

Any of the assumptions underlying the forward-looking statements included herein could be inaccurate, and undue reliance should not be placed upon any forward-looking statements included herein. All forward-looking statements are made as of the date of this Quarterly Report and the risk that actual results will differ materially from the expectations expressed herein will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements made after the date of this Quarterly Report, whether as a result of new information, future events, changed circumstances or any other reason. In light of the significant uncertainties inherent in the forward-looking statements included in this Quarterly Report, including, without limitation, the risks described under “Risk Factors,” the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Quarterly Report will be achieved.

Overview

We are a Maryland corporation formed on July 25, 2014 to invest in a portfolio of hospitality properties focusing primarily on the select-service segment of the hospitality sector with premier brands including, but not limited to, Marriott, Hilton and Hyatt. We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, beginning with our taxable year ended December 31, 2016. We own, and in the future intend to own, substantially all of our assets and conduct our operations through our operating partnership. We are the sole general partner of our operating partnership, and the initial limited partners of our operating partnership were our subsidiary, Moody OP Holdings II, LLC, or Moody Holdings II, and Moody National LPOP II, LLC, or Moody LPOP II, an affiliate of our advisor (as defined below). Moody Holdings II invested \$1,000 in our operating partnership in exchange for limited partnership interests, and Moody LPOP II invested \$1,000 in our operating partnership in exchange for special limited partnership interests. As we accept subscriptions for sales of shares of our common stock, we transfer substantially all of the net proceeds from such sales to our operating partnership in exchange for limited partnership interests and our percentage ownership in our operating partnership increases proportionally.

We are externally managed by Moody National Advisor II, LLC, a related party, which we refer to as our “advisor,” pursuant to an advisory agreement among us, our operating partnership and our advisor, or the advisory agreement. Our advisor was formed in July 2014. Moody National REIT Sponsor, LLC, which we refer to as our “sponsor,” is owned and managed by Brett C. Moody, who also serves as our Chief Executive Officer and President and the Chief Executive Officer and President of our advisor.

On January 20, 2015, we commenced our initial public offering of up to \$1,100,000,000 in shares of common stock, consisting of up to \$1,000,000,000 in shares of our common stock offered to the public and up to \$100,000,000 in shares offered to our stockholders pursuant to our distribution reinvestment plan, or the DRP. On June 26, 2017, the Securities and Exchange Commission, or SEC, declared effective a post-effective amendment to our registration statement which reallocated the shares of our common stock being sold in our initial public offering as Class A common stock, \$0.01 par value per share, or the Class A Shares, Class I common stock, \$0.01 par value per share, or the Class I Shares, and Class T common stock, \$0.01 par value per share, or the Class T Shares. We collectively refer to the Class A Shares, Class I Shares and Class T Shares as our “shares.” Effective July 19, 2018, the SEC declared effective our registration statement (Registration No. 333-222610) and we commenced our follow-on public offering of up to \$990,000,000 in any combination of the three classes of our shares, consisting of up to \$895,000,000 in shares of our

common stock offered to the public, which we refer to as the “primary offering,” and up to \$95,000,000 in shares of our common stock offered to our stockholders pursuant to the DRP. We will continue to offer shares in our follow-on offering on a continuous basis until July 19, 2020, subject to extension for an additional year (to July 29, 2021) by our board of directors.

Effective January 16, 2018, our advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with our ongoing public offering; provided, however, that our advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through receipt of an increased acquisition fee (as discussed in Note 7, “Related Party Agreements-Acquisition Fees,” in the accompanying consolidated financial statements).

On March 14, 2019, our board of directors determined an estimated net asset value, or NAV, per share of all classes of our common stock as of December 31, 2018 of \$23.32. We are currently offering our shares (i) to the public in our primary offering at a purchase price of \$23.32 per share, which is equal to the estimated NAV per share for each class of our common stock as of December 31, 2018, and (ii) to our stockholders pursuant to the DRP at a purchase price of \$23.32 per share, which is equal to the NAV per share for each class of our common stock as of December 31, 2018.

As of June 30, 2019, we had received and accepted investors’ subscriptions for and issued 8,510,459 shares in our initial public offering and our follow-on offering, excluding shares issued in connection with the Mergers (discussed below) and including 393,191 shares pursuant to the DRP, resulting in gross offering proceeds of \$198,665,114. As of June 30, 2019, we had received and accepted investors’ subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with the Mergers and including 214,764 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of \$147,415,625 for the initial public offering. As of June 30, 2019, we had received and accepted investors’ subscriptions for and issued 2,384,466 shares in the follow-on offering, including 178,427 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of \$51,249,489 for the follow-on offering. As of August 5, 2019, we had received and accepted investors’ subscriptions for and issued 2,690,173 shares in our follow-on offering, including 196,239 shares issued pursuant to our DRP, resulting in gross offering proceeds of \$57,956,811. As of August 5, 2019, \$927,483,248 of stock remained to be sold in our follow-on offering. We reserve the right to terminate our follow-on offering at any time.

Moody Securities, LLC, an affiliate of our advisor, which we refer to as the “dealer manager” or “Moody Securities,” is our dealer manager and is responsible for the distribution of our common stock in our ongoing follow-on offering.

We intend to continue to use the net proceeds from our public offerings to acquire hotel properties located in the East Coast, the West Coast and the Sunbelt regions of the United States. To a lesser extent, we may also invest in other hospitality properties located within other markets and regions, as well as real estate securities and debt-related investments related to the hospitality sector.

As of June 30, 2019, our portfolio consisted of (1) ownership interests in fifteen hotel properties located in six states, comprising a total of 2,123 rooms and (2) investment in marketable securities of approximately \$3.2 million.

Our principle executive offices are located at 6363 Woodway Drive, Suite 110, Houston, Texas 77057, and our main telephone number is (713) 977-7500.

Merger with Moody National REIT I, Inc.

On September 27, 2017, the merger of Moody National REIT I, Inc., or Moody I, with and into our company, or the Merger, and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I, or Moody I OP, with and into our operating partnership, or the Partnership Merger, were completed. We refer to the Merger and the Partnership Merger herein as the “Mergers.” For additional discussion of the Mergers, see Part I, Item 1. “Business—Merger with Moody National REIT I, Inc.” of our Annual Report on Form 10-K, as filed with the SEC on March 29, 2019, and the notes to the consolidated financial statements included in this Quarterly Report.

Factors Which May Influence Results of Operations

Economic Conditions Affecting Our Target Portfolio

Adverse economic conditions affecting the hospitality sector, the geographic regions in which we plan to invest or the real estate market generally may have a material impact on our capital resources and the revenue or income to be derived from the operation of our hospitality investments.

Offering Proceeds

Our ability to make investments depends upon the net proceeds raised in our offering and our ability to finance the acquisition of our investments. If we raise substantially less than the maximum offering amount of \$990,000,000 in our offering, we will make fewer investments resulting in less diversification in terms of the number of investments owned and fewer sources of

income. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase. In addition, if we are unable to raise substantial funds, our fixed operating expenses as a percentage of gross income would be higher, which could affect our net income and results of operations.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the three and six months ended June 30, 2019 and 2018. We were formed on July 25, 2014. As of June 30, 2018, we owned (1) interests in fourteen hotel properties located in six states, comprising a total of 1,941 rooms, and (2) a loan with a current principal amount of \$6,750,000 originated to an affiliate of our sponsor used to acquire a commercial property located in Katy, Texas. As of June 30, 2019, we owned (1) interests in fifteen hotel properties located in six states, comprising a total of 2,123 rooms and (2) investment in marketable securities of approximately \$3.2 million. Primarily because we did not own any notes receivable as of June 30, 2019 and we did own an investment in marketable securities of \$3.2 million as of June 30, 2019, our interest and dividend income for the three and six months ended June 30, 2019 are not directly comparable to those for the three and six months ended June 30, 2018. In general, we expect that our income and expenses related to our investment portfolio will increase in future periods as a result of anticipated future acquisitions of real estate and real estate-related investments. In addition, we expect that our income and expenses related to our investment portfolio will differ significantly if the mergers are consummated.

Comparison of the three months ended June 30, 2019 versus the three months ended June 30, 2018

Revenue

Total revenue increased to \$23,198,055 for the three months ended June 30, 2019 from \$22,755,610 for the three months ended June 30, 2018. Hotel revenue increased to \$23,074,063 for the three months ended June 30, 2019 from \$22,391,495 for the three months ended June 30, 2018 due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018. Interest and dividend income decreased to \$123,992 for the three months ended June 30, 2019 from \$364,115 for three months ended June 30, 2018 due to the repayment of the related party note and the related party mezzanine note. We expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of having full periods of operations for properties owned and future acquisitions of real estate assets.

A comparison of hotel revenues for the hotels owned continuously for the three months ended June 30, 2019 and 2018 follows (all amounts in thousands):

	Three months ended		Increase (Decrease)
	June 30,		
	2019	2018	
Residence Inn Austin	\$ 1,353	\$ 1,360	\$ (7)
Springhill Suites Seattle	3,005	3,721	(716)
Homewood Suites Woodlands	785	808	(23)
Hyatt Place Germantown	1,016	1,168	(152)
Hyatt Place North Charleston	1,007	1,175	(168)
Hampton Inn Austin	1,233	1,145	88
Residence Inn Grapevine	1,761	1,794	(33)
Marriott Courtyard Lyndhurst	2,520	2,535	(15)
Hilton Garden Inn Austin	1,525	1,438	87
Hampton Inn Great Valley	1,077	1,120	(43)
Embassy Suites Nashville	3,988	3,761	227
Homewood Suites Austin	1,174	1,143	31
Townplace Suites Fort Worth	793	797	(4)
Hampton Inn Houston	583	427	156
	<u>\$ 21,820</u>	<u>\$ 22,392</u>	<u>\$ (572)</u>

Revenues declined at Springhill Suites Seattle for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 due to ongoing renovations to the hotels.

Hotel Operating Expenses

Hotel operating expenses increased to \$14,414,330 for the three months ended June 30, 2019 from \$13,080,565 for the three months ended June 30, 2018. The increase in hotel operating expenses was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Property Taxes, Insurance and Other

Property taxes, insurance and other expenses increased to \$1,647,579 for the three months ended June 30, 2019 from \$1,329,597 for the three months ended June 30, 2018. The increase in property taxes, insurance and other expenses was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Depreciation and Amortization

Depreciation and amortization increased to \$3,495,441, for the three months ended June 30, 2019 from \$2,957,012 for the three months ended June 30, 2018. The increase in depreciation and amortization was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Acquisition Expenses

Acquisition expenses increased to \$2,211,663 for the three months ended June 30, 2019 from \$0 for the three months ended June 30, 2018 due to the acquisition of the Residence Inn Houston Medical Center during the three months ended June 30, 2019 compared to no acquisitions during the three months ended June 30, 2018.

Corporate General and Administrative Expenses

Corporate general and administrative expenses decreased to \$1,508,116 for the three months ended June 30, 2019 from \$1,658,277 for the three months ended June 30, 2018. These general and administrative expenses consisted primarily of asset management fees, professional fees, restricted stock compensation and directors' fees. We expect corporate general and administrative expenses to increase in future periods as a result of anticipated future acquisitions, but to decrease as a percentage of total revenue.

Interest Expense and Amortization of Debt Issuance Costs

Interest expense and amortization of debt issuance costs decreased to \$3,233,164 for the three months ended June 30, 2019 from \$4,299,380 for the three months ended June 30, 2018. Interest expense and amortization of debt issuance costs decreased primarily due to the repayment of debt associated with the acquisition of the Moody I portfolio on September 27, 2017. In future periods our interest expense will vary based on the amount of our borrowings, which will depend on the availability and cost of borrowings and our ability to identify and acquire real estate and real estate-related assets that meet our investment objectives.

Income Tax Expense

Our income tax expense decreased to \$46,000 for the three months ended June 30, 2019 from \$111,228 for the three months ended June 30, 2018 due to a decrease in taxable income of the TRS for the three months ended June 30, 2019 from the three months ended June 30, 2018.

Comparison of the six months ended June 30, 2019 versus the six months ended June 30, 2018

Revenue

Total revenue increased to \$41,982,914 for the six months ended June 30, 2019 from \$41,721,815 for the six months ended June 30, 2018. Hotel revenue increased to \$41,530,125 for the six months ended June 30, 2019 from \$40,938,661 for the six months ended June 30, 2018 due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018. Interest and dividend income decreased to \$452,789 for the six months ended June 30, 2019 from \$783,154 for six months ended June 30, 2018 due to the repayment of the related party note and the related party mezzanine note. We expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of having full periods of operations for properties currently owned and future acquisitions of real estate assets.

The table below sets forth a comparison of hotel revenues for the hotels we owned continuously for the six months ended June 30, 2019 and 2018 (all amounts in thousands):

	Six months ended June 30,		Increase (Decrease)
	2019	2018	
Residence Inn Austin	\$ 2,635	\$ 2,676	(41)
Springhill Suites Seattle	5,174	6,367	(1,193)
Homewood Suites Woodlands	1,539	1,619	(80)
Hyatt Place Germantown	1,841	2,059	(218)
Hyatt Place North Charleston	1,851	2,126	(275)
Hampton Inn Austin	2,452	2,268	184
Residence Inn Grapevine	3,469	3,563	(94)
Marriott Courtyard Lyndhurst	4,368	4,538	(170)
Hilton Garden Inn Austin	2,945	2,829	116
Hampton Inn Great Valley	1,849	1,885	(36)
Embassy Suites Nashville	7,177	6,185	992
Homewood Suites Austin	2,277	2,249	28
Townplace Suites Fort Worth	1,537	1,425	112
Hampton Inn Houston	1,161	1,150	11
	<u>\$ 40,275</u>	<u>\$ 40,939</u>	<u>(664)</u>

Revenues declined at Springhill Suites Seattle for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 due to ongoing renovations to the hotel.

Hotel Operating Expenses

Hotel operating expenses increased to \$26,529,674 for the six months ended June 30, 2019 from \$24,848,170 for the six months ended June 30, 2018. The increase in hotel operating expenses was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Property Taxes, Insurance and Other

Property taxes, insurance and other expenses increased to \$3,016,368 for the six months ended June 30, 2019 from \$2,625,593 for the six months ended June 30, 2018. The increase in property taxes, insurance and other expenses was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Depreciation and Amortization

Depreciation and amortization increased to \$6,669,437 for the six months ended June 30, 2019 from \$5,879,027 for the six months ended June 30, 2018. The increase in depreciation and amortization was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Acquisition Expenses

Acquisition expenses increased to \$2,211,663 for the six months ended June 30, 2019 from \$0 for the six months ended June 30, 2018 due to the acquisition of the Residence Inn Houston Medical Center during the six months ended June 30, 2019 compared to no acquisitions during the six months ended June 30, 2018.

Corporate General and Administrative Expenses

Corporate general and administrative expenses decreased to \$3,130,058 for the six months ended June 30, 2019 from \$3,699,020 for the six months ended June 30, 2018 due to a decrease in operating expenses reimbursable to our advisor. These general and administrative expenses consisted primarily of asset management fees, professional fees, restricted stock compensation and directors' fees. We expect corporate general and administrative expenses to increase in future periods as a result of anticipated future acquisitions, but to decrease as a percentage of total revenue.

Interest Expense and Amortization of Debt Issuance Costs

Interest expense and amortization of debt issuance costs decreased to \$6,319,127 for the six months ended June 30, 2019 from \$8,633,938 for the six months ended June 30, 2018. Interest expense and amortization of debt issuance costs decreased primarily due to the repayment of debt associated with the acquisition of the Moody I portfolio on September 27, 2017. In future periods our

interest expense will vary based on the amount of our borrowings, which will depend on the availability and cost of borrowings and our ability to identify and acquire real estate and real estate-related assets that meet our investment objectives.

Income Tax Expense (Benefit)

Our income tax expense increased to \$95,817 for the six months ended June 30, 2019 from an income tax benefit of \$209,772 for the six months ended June 30, 2018 due to our taxable REIT subsidiary having a taxable income for the six months ended June 30, 2019 and taxable loss for the six months ended June 30, 2018.

Liquidity and Capital Resources

Our principal demand for funds is for the acquisition of real estate assets, the payment of operating expenses, principal and interest payments on our outstanding indebtedness and the payment of distributions to our stockholders. Proceeds from our public offering currently supply a significant portion of our cash. Over time, however, we anticipate that cash from operations will generally fund our cash needs for items other than asset acquisitions.

There may be a delay between the sale of shares of our common stock during our public offering and our purchase of assets, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investment operations. Our advisor, subject to the oversight of our board, will evaluate potential acquisitions and will engage in negotiations with sellers and lenders on our behalf. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures.

We may, but are not required to, establish working capital reserves out of cash flow generated by our real estate assets or out of proceeds from the sale of our real estate assets. We do not anticipate establishing a general working capital reserve; however, we may establish working capital reserves with respect to particular investments. We also may, but are not required to, establish reserves out of cash flow generated by our real estate assets or out of net sale proceeds in non-liquidating sale transactions. Working capital reserves are typically used to fund tenant improvements, leasing commissions and major capital expenditures. We also escrow funds for hotel property improvements. Our lenders also may require working capital reserves. The Term Loan Agreement (described below) also contains various customary covenants, including but not limited to financial covenants, covenants requiring monthly deposits in respect of certain property costs, such as taxes, furniture, fixtures and equipment, and insurance, covenants imposing restrictions on indebtedness and liens, and restrictions on investments and participation in other asset disposition, merger or business combination or dissolution transactions.

To the extent that any working capital reserve we establish is insufficient to satisfy our cash requirements, additional funds may be provided from cash generated from operations, short-term borrowing, equity capital from joint venture partners, or the proceeds of public or private offerings of our shares or interests in our operating partnership. In addition, subject to certain limitations, we may incur indebtedness in connection with the acquisition of any real estate assets, refinance the debt thereon, arrange for the leveraging of any previously unfinanced property or reinvest the proceeds of financing or refinancing in additional properties. There can be no assurance that we will be able to obtain such capital or financing on favorable terms, if at all.

Net Cash Provided by Operating Activities

As of June 30, 2019, we owned interests in fifteen hotel properties and investment in marketable securities of approximately \$3.2 million. As of June 30, 2018, we owned interests in fourteen hotel properties and a note receivable from related party in the amount of \$6,750,000. Net cash provided by operating activities for the six months ended June 30, 2019 and 2018 was \$1,043,920 and \$2,059,000 respectively. The decrease in cash provided by operating activities for the six months ended June 30, 2019 was primarily due to the fact that acquisition expenses increased to \$2,211,663 for the six months ended June 30, 2019 from \$0 for the six months ended June 30, 2018.

Net Cash (Used in) Provided By Investing Activities

Our cash used in investing activities will vary based on how quickly we invest the net offering proceeds from our public offering towards acquisitions of real estate and real-estate related investments. Net cash (used in) provided by investing activities for the six months ended June 30, 2019 and 2018 was \$(769,170) and \$11,805,310, respectively. The decrease in cash provided by investing activities for the six months ended June 30, 2019 was due to a decrease in the repayment in the related party mortgage note and the related party mezzanine note receivable during the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Net Cash Used in Financing Activities

For the six months ended June 30, 2019, our cash flows from financing activities consisted primarily of proceeds from our public offering, net of offering costs, distributions paid to our stockholders, and repayment of debt. Net cash used in financing

activities for the six months ended June 30, 2019 and 2018 was \$(3,355,880) and \$(7,490,239), respectively. The decrease in cash used in financing activities for the six months ended June 30, 2019, was primarily due to an increase in gross offering proceeds of \$33,096,760 for the six months ended June 30, 2019 compared to \$21,198,873 for the six months ended June 30, 2018 net of an increase in redemptions of common stock to \$3,029,876 for the six months ended June 30, 2019 compared to \$781,749 for the six months ended June 30, 2018.

Cash and Cash Equivalents and Restricted Cash

As of June 30, 2019, we had cash on hand, cash equivalents and restricted cash of \$16,113,458.

Debt

We use, and intend to use in the future, secured and unsecured debt as a means of providing additional funds for the acquisition of real property, and potentially securities and debt-related investments. By operating on a leveraged basis, we expect that we will have more funds available for investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure on a particular asset. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness. When debt financing is unattractive due to high interest rates or other reasons, or when financing is otherwise unavailable on a timely basis, we may purchase certain assets for cash with the intention of obtaining debt financing at a later time.

Term Loan Agreement

On September 27, 2017, our operating partnership, as borrower, we and certain of our subsidiaries, as guarantors, and KeyBank National Association, or KeyBank, as agent and lender (KeyBank, in its capacity as lender, together with any other lender institutions that may become parties to the term loan agreement are referred to herein as the Lenders), entered into a term loan agreement, or, as amended, the Term Loan Agreement. Pursuant to the Term Loan Agreement, the Lenders have made a term loan to our operating partnership in the original principal amount of \$70 million, or the Term Loan. Capitalized terms used in this description of the Term Loan Agreement and not defined herein have the same meaning as in the Term Loan Agreement. We used proceeds from the Term Loan to pay the cash consideration in connection with the Mergers, other costs and expenses related to the Mergers and for other corporate purposes. We began making principal payments of \$1.5 million per month on the Term Loan in November 2017. The balance of the term loan was \$25,700,000 as of June 30, 2019.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018. On October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan, subject to satisfaction of certain conditions, including payment of an extension fee in the amount of 0.5% of the then outstanding principal amount of the Term Loan. The Outstanding Balance of \$26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the maturity date of the Term Loan. In addition, the Term Loan originally provided for monthly interest payments, for mandatory payments of principal from the proceeds of certain capital events, and for monthly payments of principal in an amount equal to the greater of (i) 50% of our operating partnership's Consolidated Net Cash Flow or (ii) \$1,500,000. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal will be \$100,000 per month, and the margins over the base rate or London Interbank Offered Rate, or LIBOR, rate will be 2.75% and 3.75%, respectively. The Term Loan may be prepaid at any time, in whole or in part, without premium or penalty, as described in the Term Loan Agreement. Upon the occurrence of an event of default, the Lenders may accelerate the payment of the Outstanding Balance.

The performance of our obligations under the Term Loan Agreement is secured by, among other things, mortgages on our hotel properties in Lyndhurst, New Jersey, which we refer to as the Lyndhurst Property, and Fort Worth, Texas, which we refer to as the Fort Worth Property, and by pledges of certain portions of the ownership interests in certain subsidiaries of our operating partnership. Pursuant to a Guaranty Agreement in favor of KeyBank, we and certain of our subsidiaries, including the owners of the Lyndhurst Property and Fort Worth Property, will be fully and personally liable for the payment and performance of the obligations set forth in the Term Loan Agreement and all other loan documents, including the payment of all indebtedness and obligations due under the Term Loan Agreement.

On March 28, 2018, the parties to the Term Loan Agreement entered into a letter agreement, or the Term Loan Letter Agreement, pursuant to which the parties thereto agreed to change the commencement date of our obligation under the Term Loan Agreement to raise \$10 million per quarter in gross offering proceeds to the calendar quarter ending June 30, 2018.

The Term Loan Agreement also contains various customary covenants, including but not limited to financial covenants, covenants requiring monthly deposits in respect of certain property costs, such as taxes, furniture, fixtures and equipment, and

insurance, covenants imposing restrictions on indebtedness and liens, and restrictions on investments and participation in other asset disposition, merger or business combination or dissolution transactions.

Failure by us to comply with financial and other covenants contained in our mortgage loans or the Term Loan could result from, among other things, changes results of operations, the incurrence of additional debt or changes in general economic conditions. If we violate financial and other covenants contained in any of the mortgage loans or Term Loan described above we may attempt to negotiate waivers of the violations or amend the terms of the applicable mortgage loan or the Term Loan with the lenders thereunder; however, we can make no assurance that we would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to us. If a default under the mortgage loans or the Term Loan were to occur, we would possibly have to refinance debt through additional debt financing, private or public offering of debt securities, or additional equity financings. If we are unable to refinance debt on acceptable terms, including a maturity of the mortgage loans or the Term Loan, we may be forced to dispose of some of our hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increased interest expense would lower our cash flow, and, consequently, cash available for distribution to stockholders.

Requirements associated with a mortgage loan to deposit and disburse operating receipts in a specified manner may limit our overall liquidity as cash from the hotel securing such mortgage would not be available for us to use. If we are unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to us.

As of June 30, 2019, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans secured by our properties or the Term Loan.

Short Term Loan

On October 24, 2018, our operating partnership issued a promissory note in favor Green Bank, N.A. in the original principal amount of \$16,000,000, or the Short Term Loan. The proceeds of the Short Term Loan were used to retire a portion of the Term Loan, resulting in a balance of \$26.5 million for the Term Loan as of October 24, 2018. The Short Term Loan bore interest at an annual rate equal to the one-month LIBOR plus 2.5% and our company and the operating partnership were collectively required to make a monthly payment on the outstanding principal and interest of the Short Term Loan equal to the greater of \$1,500,000 or 50% of our consolidated net cash flow. The entire principal balance of the Short Term Loan and all interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

Note Payable to Related Party

On the April 29, 2019, the acquisition date of the Residence Inn Houston Medical Center, our operating partnership issued a promissory note payable to the seller of the Residence Inn Houston Medical Center property in the original principal amount of \$22,550,000, evidencing a note payable to related party. The note payable to related party bears interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 3%. Any amounts payable under the note payable to related party which are not paid by our operating partnership when due will bear interest at a past due rate equal to the lesser of the maximum rate permitted by applicable law and 18%. On the April 29, 2019, our operating partnership made a principal payment of \$7,824,082, and beginning on May 15, 2019 and ending on October 15, 2019, our operating partnership will make a monthly principal and interest payment of \$2,000,000. The entire outstanding principal balance of the note payable to related party, together with all accrued interest thereon and all other amounts payable under the note payable to related party, is due and payable in full on December 15, 2019. If our operating partnership fails to make when due any payment under the note payable to related party, our operating partnership will pay to the seller on demand a late fee equal to 5% of the amount of such payment. Upon at least five days prior written notice to the seller, our operating partnership may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in whole or in part, without penalty. The balance of the note payable to related party was \$12,745,218 as of June 30, 2019.

The note payable to related party provides for customary events of default, including failure by our operating partnership to pay when due and payable any amounts payable under the terms of the note payable to related party. Upon any event of default by our operating partnership, seller may accelerate the maturity date of the note payable to related party and declare the entire unpaid principal balance of the note payable to related party and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

As of June 30, 2019, our outstanding indebtedness totaled \$244,508,979, which amount includes debt associated with properties previously owned by Moody I. Our aggregate borrowings are reviewed by our board of directors at least quarterly. Under our Articles of Amendment and Restatement, or our charter, we are prohibited from borrowing in excess of 300% of the value of our

net assets. “Net assets” for purposes of this calculation is defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of our assets before non-cash reserves and depreciation. However, we may temporarily borrow in excess of these amounts if such excess is approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report, along with an explanation for such excess. As of June 30, 2019 and December 31, 2018, our debt levels did not exceed 300% of the value of our net assets.

For more information on our outstanding indebtedness, see Note 5, “Debt” to the consolidated financial statements included in this Quarterly Report.

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of June 30, 2019 (in thousands):

Contractual Obligations	Payments Due By Period				
	Total	2019	2020-2021	2022-2023	Thereafter
Long-term debt obligations ⁽¹⁾	\$ 244,509	\$ 27,464	\$ 8,313	\$ 25,574	\$ 183,158
Interest payments on outstanding debt obligations ⁽²⁾	57,540	5,704	20,259	18,895	12,682
Total	\$ 302,049	\$ 33,168	\$ 28,572	\$ 44,469	\$ 195,840

(1) Amounts include principal payments only.

(2) Projected interest payments are based on the outstanding principal amounts and weighted-average interest rates at June 30, 2019.

As discussed above, we extended the maturity date of and partially refinanced the Term Loan on October 24, 2018. We intend to retire the Term Loan with proceeds from long-term loans secured by the Marriott Courtyard Lyndhurst and Townplace Suites Forth Worth hotel properties and through our monthly principal reductions of approximately \$100,000.

Organization and Offering Costs

Our organization and offering costs may be incurred directly by us or such costs may be incurred by our advisor on our behalf. Pursuant to the advisory agreement with our advisor, we are obligated to reimburse our advisor or its affiliates, as applicable, for organization and offering costs incurred by our advisor associated with our public offerings, provided that within 60 days of the last day of the month in which any public offering ends, our advisor is obligated to reimburse us to the extent that organization and offering costs we may have incurred in connection with such public offering exceed 15% of the gross offering proceeds from the sale of shares of our common stock in such offering. Such organization and offering costs include selling commissions and dealer manager fees paid to a dealer manager, legal, accounting, printing and other offering expenses, including marketing, salaries and direct expenses of our advisor’s employees and employees of our advisor’s affiliates and others. Any reimbursement to our advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by our advisor. Our organization and offering costs incurred in connection with our initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

All offering costs, including selling commissions and dealer manager fees, are recorded as an offset to additional paid-in-capital, and all organization costs are recorded as an expense when we have an obligation to reimburse our advisor.

As of June 30, 2019, total organization and offering costs for our initial public offering and follow-on offering were \$20,055,275, comprised of \$12,333,647 of organization and offering costs incurred directly by us and \$7,721,627 in organization and offering costs incurred by and reimbursable to our advisor. As of June 30, 2019, total organization and offering costs for the initial public offering were \$18,365,295, comprised of \$12,333,647 of organization and offering costs incurred directly by us and \$6,031,648 in organization and offering costs incurred by and reimbursable to our advisor. As of June 30, 2019, total organization and offering costs for the follow-on offering were \$1,689,980, comprised of \$0 of offering costs incurred directly by us and \$1,689,980 in offering costs incurred by and reimbursable to our advisor. As of June 30, 2019, we had \$327,800 due to our advisor for reimbursable organization and offering costs.

Operating Expenses

We will reimburse our advisor for all expenses paid or incurred by our advisor in connection with the services it provides to us, subject to the limitation that we will not reimburse our advisor for any amount by which our operating expenses (including the asset management fee we pay to our advisor) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of our average invested assets, or (2) 25% of our net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of our assets for that period, which we refer to as the

“2%/25% Limitation.” Notwithstanding the above, we may reimburse our advisor for expenses in excess of the 2%/25% Limitation if a majority of our independent directors determine that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended June 30, 2019, our total operating expenses were \$6,120,146, which included \$4,811,745 in operating expenses incurred directly by us and \$1,308,401 incurred by our advisor on our behalf. Of that \$6,120,146 in total operating expenses incurred during four fiscal quarters ended June 30, 2019, \$0 exceeded the 2%/25% Limitation. We reimbursed our advisor \$1,308,000 during four fiscal quarters ended June 30, 2019. As of June 30, 2019, we had \$612,000 due from our advisor for operating expense reimbursement.

Critical Accounting Policies

General

We consider the accounting policies described below to be critical because they involve significant judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management’s judgment or interpretation of the facts and circumstances relating to various transactions is different, it is possible that different accounting policies will be applied or different amounts of assets, liabilities, revenues and expenses will be recorded, resulting in a different presentation of the consolidated financial statements or different amounts reported in the consolidated financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Income Taxes

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. We did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the year ended December 31, 2015 and for the period from July 25, 2014 (inception) to December 31, 2014, including not having the requisite number of shareholders for a sufficient number of days in those periods. Prior to qualifying to be taxed as a REIT we were subject to normal federal and state corporation income taxes.

Provided that we continue to qualify as a REIT, we generally will not be subject to federal corporate income tax to the extent we distribute our REIT taxable income to our stockholders, so long as we distribute at least 90% of our REIT taxable income (which is computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP) and satisfy the other organizational and operational requirements for REIT qualification. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income.

We lease the hotels that we acquire to a wholly owned TRS that is subject to federal, state and local income taxes.

We account for income taxes of our TRS using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We record a valuation allowance for net deferred tax assets that are not expected to be realized.

We have reviewed tax positions under GAAP guidance that clarify the relevant criteria and approach for the recognition and measurement of uncertain tax positions. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the consolidated financial statements if it is more likely than not that the tax position will be sustained upon examination. We had no material uncertain tax positions as of June 30, 2019.

The preparation of our various tax returns requires the use of estimates for federal and state income tax purposes. These estimates may be subjected to review by the respective taxing authorities. A revision to an estimate may result in an assessment of additional taxes, penalties and interest. At this time, a range in which our estimates may change is not expected to be material. We will account for interest and penalties relating to uncertain tax provisions in the current period’s results of operations, if necessary. We have tax years 2014 through 2017 remaining subject to examination by various federal and state tax jurisdictions.

Valuation and Allocation of Hotel Properties — Acquisitions

Upon acquisition, the purchase price of hotel properties are allocated to the tangible assets acquired, consisting of land, buildings and furniture, fixtures and equipment, any assumed debt, identified intangible assets and asset retirement obligations, if any, based on their fair values. Acquisition costs are charged to expense as incurred. Initial valuations are subject to change during the

measurement period, but the measurement period ends as soon as the information is available. The measurement period shall not exceed one year from the acquisition date.

Land fair values are derived from appraisals, and building fair values are calculated as replacement cost less depreciation or our estimates of the relative fair value of these assets using discounted cash flow analyses or similar methods. The fair value of furniture, fixtures and equipment is based on their fair value using replacement costs less depreciation.

We determine the fair value of any assumed debt by calculating the net present value of the scheduled mortgage payments using interest rates for debt with similar terms and remaining maturities that we believe we could obtain at the date of acquisition. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan as interest expense.

In allocating the purchase price of each of our properties, we make assumptions and use various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets and discount rates used to determine present values. Many of these estimates are obtained from independent third party appraisals. However, we are responsible for the source and use of these estimates. These estimates are based on judgment and subject to being imprecise; accordingly, if different estimates and assumptions were derived, the valuation of the various categories of our hotel properties or related intangibles could, in turn, result in a difference in the depreciation or amortization expense recorded in our consolidated financial statements. These variances could be material to our results of operations and financial condition.

Valuation and Allocation of Hotel Properties — Ownership

Depreciation expense is computed using the straight-line method based upon the following estimated useful lives:

	Estimated Useful Lives (years)
Buildings and improvements	39-40
Exterior improvements	10-20
Furniture, fixtures and equipment.....	5-10

Impairment

We monitor events and changes in circumstances indicating that the carrying amounts of our hotel properties may not be recoverable. When such events or changes in circumstances are present, we assess potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset from operating activities and from its eventual disposition, to the carrying amount of the asset. In the event that the carrying amount exceeds the estimated future undiscounted cash flows, we recognize an impairment loss to adjust the carrying amount of the asset to estimated fair value for assets held for use and fair value less costs to sell for assets held for sale. There were no such impairment losses for the three and six months ended June 30, 2019 and 2018.

In evaluating our hotel properties for impairment, we make several estimates and assumptions, including, but not limited to, the projected date of disposition of the properties, the estimated future cash flows of the properties during our ownership and the projected sales price of each of the properties. A change in these estimates and assumptions could result in a change in the estimated undiscounted cash flows or fair value of our hotel properties which could then result in different conclusions regarding impairment and material changes to our consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. We adopted this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on our consolidated financial statements and related disclosures, we believe the impact will be minimal to our ongoing consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities,” which improves the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. We adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on our ongoing consolidated financial statements.

Inflation

As of June 30, 2019, our investments consisted of interests in fifteen hotel properties and one note receivable from a related party. Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators’ ability to raise room rates. The note receivable from a related party bears interest at a fixed rate of interest and inflation could, therefore, have an impact on their fair value. As of June 30, 2019, we were not experiencing any material impact from inflation.

REIT Compliance

We elected to be taxed as a REIT commencing with the taxable year ended December 31, 2016. To qualify as a REIT for tax purposes, we are required to distribute at least 90% of our REIT taxable income (determined for this purpose without regard to the dividends-paid deduction and excluding net capital gain) to our stockholders. We must also meet certain asset and income tests, as well as other requirements. We will monitor the business and transactions that may potentially impact our REIT status. If we fail to qualify as a REIT in any taxable year following the taxable year in which we initially elect to be taxed as a REIT, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which our REIT qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. We did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the year ended December 31, 2015 and the period from July 25, 2014 (inception) to December 31, 2014.

Distributions

Our board of directors authorized and declared a distribution to our stockholders for 2019 that will be (1) calculated daily and reduced for class-specific expenses; (2) payable in cumulative amounts on or before the 15th day of each calendar month to stockholders of record as of the last day of the previous month; and (3) calculated at a rate of \$1.7528 per share of our common stock per year, or approximately \$0.00480 per share per day, before any class-specific expenses. We first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the six months ended June 30, 2019 and 2018 (in thousands):

Period	Distribution		Total Amount of Distribution
	Cash Distribution	Paid Pursuant to DRP⁽¹⁾	
First Quarter 2019	\$ 3,517	\$ 1,121	\$ 4,638
Second Quarter 2019.....	3,858	1,228	5,086
Total	<u>\$ 7,375</u>	<u>\$ 2,349</u>	<u>\$ 9,724</u>
First Quarter 2018	\$ 3,218	\$ 634	\$ 3,852
Second Quarter 2018.....	3,039	963	4,002
Total	<u>\$ 6,257</u>	<u>\$ 1,597</u>	<u>\$ 7,854</u>

(1) Amount of distributions paid in shares of common stock pursuant to the DRP.

Funds from Operations and Modified Funds from Operations

One of our objectives is to provide cash distributions to our stockholders from cash generated by our operations. Cash generated from operations is not equivalent to net income as determined under GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, has promulgated a standard known as Funds from Operations, or FFO, which it believes more accurately reflects the operating performance of a REIT. As defined by NAREIT, FFO means net income computed in accordance with GAAP, excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint

ventures in which the REIT holds an interest. We have adopted the NAREIT definition for computing FFO because, in our view, FFO is a meaningful supplemental performance measure in conjunction with net income.

Changes in the accounting and reporting rules under GAAP that have been put into effect since the establishment of NAREIT's definition of FFO have prompted a significant increase in the magnitude of non-cash and non-operating items included in FFO, as defined. As a result, in addition to FFO, we also calculate modified funds from operations, or MFFO, a non-GAAP supplemental financial performance measure that our management uses in evaluating our operating performance. Similar to FFO, MFFO excludes items such as depreciation and amortization. However, MFFO excludes non-cash and non-operating items included in FFO, such as amortization of certain in-place lease intangible assets and liabilities and the amortization of certain tenant incentives. Our calculation of MFFO will exclude these items, as well as the effects of straight-line rent revenue recognition, fair value adjustments to derivative instruments that do not qualify for hedge accounting treatment, non-cash impairment charges and certain other items, when applicable. Our calculation of MFFO will also include, when applicable, items such as master lease rental receipts, which are excluded from net income (loss) and FFO, but which we consider in the evaluation of the operating performance of our real estate investments.

We believe that MFFO reflects the overall impact on the performance of our real estate investments of occupancy rates, rental rates, property operating costs and development activities, as well as general and administrative expenses and interest costs, which is not immediately apparent from net income (loss). As such, we believe MFFO, in addition to net income (loss) as defined by GAAP, is a meaningful supplemental performance measure which is used by our management to evaluate our operating performance and determine our operating, financing and dividend policies.

Please see the limitations listed below associated with the use of MFFO as compared to net income (loss):

- Our calculation of MFFO will exclude any gains (losses) related to changes in estimated values of derivative instruments related to any interest rate swaps which we hold. Although we expect to hold these instruments to maturity, if we were to settle these instruments prior to maturity, it would have an impact on our operations. We do not currently hold any such derivative instruments and thus our calculation of MFFO set forth in the table below does not reflect any such exclusion.
- Our calculation of MFFO will exclude any impairment charges related to long-lived assets that have been written down to current market valuations. Although these losses will be included in the calculation of net income (loss), we will exclude them from MFFO because we believe doing so will more appropriately present the operating performance of our real estate investments on a comparative basis. We have not recognized any such impairment charges and thus our calculation of MFFO set forth in the table below does not reflect any such exclusion.
- Our calculation of MFFO will exclude organizational and offering expenses and acquisition expenses. Although organizational and acquisition expenses reduce net income, we fund such costs with proceeds from our offering and acquisition-related indebtedness, and do not consider these expenses in the evaluation of our operating performance and determining MFFO. Offering expenses do not affect net income. Our calculation of MFFO set forth in the table below reflects the exclusion of acquisition expenses.

We believe MFFO is useful to investors in evaluating how our portfolio might perform after our offering and acquisition stage has been completed and, as a result, may provide an indication of the sustainability of our distributions in the future. However, as described in greater detail below, MFFO should not be considered as an alternative to net income (loss) or as an indication of our liquidity. Many of the adjustments to MFFO are similar to adjustments required by SEC rules for the presentation of pro forma business combination disclosures, particularly acquisition expenses, gains or losses recognized in business combinations and other activity not representative of future activities. MFFO is also more comparable in evaluating our performance over time and as compared to other real estate companies, which may not be as involved in acquisition activities or as affected by impairments and other non-operating charges.

MFFO is useful in assisting management and investors in assessing the sustainability of operating performance in future operating periods, and in particular, after the offering and acquisition stages are complete and net asset value is disclosed. However, MFFO is not a useful measure in evaluating net asset value because impairments are taken into account in determining net asset value but not in determining MFFO. Investors are cautioned that, due to the fact that impairments are based on estimated future undiscounted cash flows and, given the relatively limited term of our operations, it could be difficult to recover any impairment charges.

The calculation of FFO and MFFO may vary from entity to entity because capitalization and expense policies tend to vary from entity to entity. Consequently, our presentation of FFO and MFFO may not be comparable to other similarly titled measures

presented by other REITs. In addition, FFO and MFFO should not be considered as an alternative to net income (loss) or to cash flows from operating activities and are not intended to be used as a liquidity measure indicative of cash flow available to fund our cash needs. In particular, as we are currently in the acquisition phase of our life cycle, acquisition costs and other adjustments which are increases to MFFO are, and may continue to be, a significant use of cash. MFFO also excludes impairment charges, rental revenue adjustments and unrealized gains and losses related to certain other fair value adjustments. Accordingly, both FFO and MFFO should be reviewed in connection with other GAAP measurements.

The table below summarizes our calculation of FFO and MFFO for the three months ended June 30, 2019 and 2018 and a reconciliation of such non-GAAP financial performance measures to our net income (in thousands).

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net loss	\$ (3,223)	\$ (680)	\$ (6,013)	\$ (3,754)
Adjustments:				
Depreciation of real estate	3,495	2,957	6,669	5,879
Gain on sale of marketable securities	(9)	—	(9)	—
Funds from Operations	263	2,277	647	2,125
Adjustments:				
Acquisition expenses	2,212	—	2,212	—
Unrealized (gain) loss on change in fair value of investment in marketable securities	(126)	—	33	—
Amortization of debt issuance costs	273	563	600	1,139
Modified Funds from Operations	<u>\$ 2,622</u>	<u>\$ 2,840</u>	<u>\$ 3,492</u>	<u>\$ 3,264</u>

Off-Balance Sheet Arrangements

As of June 30, 2019, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Related Party Transactions and Agreements

We have entered into agreements with our advisor and its affiliates whereby we have paid, and may continue to pay, certain fees to, or reimburse certain expenses of, our advisor or its affiliates in connection with the mergers and for acquisition and advisory fees and expenses, financing coordination fees, organization and offering costs, sales commissions, dealer manager fees, asset and property management fees and expenses, leasing fees and reimbursement of certain operating costs. See Note 1, “Organization-Merger with Moody I,” and Note 7, “Related Party Arrangements,” to the consolidated financial statements included in this Quarterly Report for a discussion of our related-party transactions, agreements and fees.

Subsequent Events

Distributions Declared

On June 30, 2019, we declared a distribution in the aggregate amount of \$1,718,046, of which \$1,302,682 was paid in cash on July 15, 2019, \$415,364 was paid pursuant to the DRP in the form of additional shares of our common stock, and \$4,568 was paid to reduce deferred distribution pending the return of letters of transmittal by former Moody I stockholders. On July 31, 2019, we declared a distribution in the aggregate amount of \$1,761,445, which is scheduled to be paid in cash and pursuant to the DRP in the form of additional shares of our common stock on or about August 15, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market Risk

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity, fund capital expenditures and expand our real estate investment portfolio and operations. Market fluctuations in real estate financing may affect the availability and cost of funds needed to expand our investment portfolio. In addition, restrictions upon the availability of real estate financing or high interest rates for real estate loans could adversely affect our ability to dispose of real estate in the future. We will seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. The market risk associated with interest-

rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

With regard to variable rate financing, our advisor will assess our interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. Our advisor will maintain risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding and forecasted debt obligations as well as our potential offsetting hedge positions. While this hedging strategy will be designed to minimize the impact on our net income and funds from operations from changes in interest rates, the overall returns on your investment may be reduced.

As of June 30, 2019, our indebtedness, as described below, was comprised of notes secured by our hotel properties. All such notes, except the Term Loan, accrue interest at a fixed rate and, therefore, an increase or decrease in interest rates would have no effect on our interest expense with respect such notes. Interest rate changes will affect the fair value of any fixed rate instruments that we hold. As we expect to hold our fixed rate instruments to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

As of June 30, 2019 and December 31, 2018, our notes payable consisted of the following (all \$ amounts in thousands):

Loan	Principal as of June 30, 2019	Principal as of December 31, 2018	Interest Rate at June 30, 2019	Maturity Date
Residence Inn Austin ⁽¹⁾	\$ 16,427	\$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle ⁽¹⁾	44,526	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands ⁽¹⁾	8,991	9,066	4.690%	April 11, 2025
Hyatt Place Germantown ⁽¹⁾	6,946	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston ⁽¹⁾	7,088	7,158	5.193%	August 1, 2023
Hampton Inn Austin ⁽¹⁾	10,590	10,687	5.426%	January 6, 2024
Residence Inn Grapevine ⁽¹⁾	12,228	12,341	5.250%	April 6, 2024
Hilton Garden Inn Austin ⁽¹⁾	18,241	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley ⁽¹⁾	7,928	7,994	4.700%	April 11, 2025
Embassy Suites Nashville ⁽¹⁾	41,626	41,998	4.2123%	July 11, 2025
Homewood Suites Austin ⁽¹⁾	10,690	10,778	4.650%	August 11, 2025
Hampton Inn Houston ⁽¹⁾	4,428	4,480	7.500%	April 28, 2023
Residence Inn Houston Medical Center ⁽⁴⁾	29,100	—	5.000%	October 1, 2024
			30-day LIBOR plus	
Term Loan ⁽²⁾	25,700	26,300	3.750%	September 27, 2019
			30-day LIBOR plus	
Short Term Loan ⁽³⁾	—	12,970	2.50%	April 24, 2019
Total notes payable	<u>244,509</u>	<u>230,636</u>		
Less unamortized debt issuance costs	<u>(3,167)</u>	<u>(3,462)</u>		
Total notes payable, net of unamortized debt issuance costs	<u>\$ 241,342</u>	<u>\$ 227,174</u>		

(1) Monthly payments of principal and interest are due and payable until the maturity date.

(2) Monthly payments of principal and interest are due and payable until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019, as discussed below.

(3) Monthly payments of principal and interest were due and payable until the maturity date. All unpaid principal and interest thereon was repaid in full on April 24, 2019, the maturity date.

(4) Monthly payments of interest due and payable until October 2019. Monthly payments of principal and interest due and payable beginning in November 2019 until the maturity date.

Hotel properties secure their respective loans. The Term Loan is partially secured by Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and is partially unsecured.

Credit Risk

We will also be exposed to credit risk. Credit risk in our investments in debt and securities relates to each individual borrower's ability to make required interest and principal payments on scheduled due dates. We seek to manage credit risk through our advisor's comprehensive credit analysis prior to making an investment, actively monitoring our asset portfolio and the underlying credit quality of our holdings and subordination and diversification of our portfolio. Our analysis is based on a broad range of real estate, financial, economic and borrower-related factors which we believe are critical to the evaluation of credit risk inherent in a transaction.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based upon, and as of the date of, the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may be party to legal proceedings that arise in the ordinary course of our business. Management is not aware of any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by government agencies.

ITEM 1A. RISK FACTORS.

Except as set forth below, there have been no material changes to the risk factors contained in Part I, Item 1A set forth in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on April 2, 2019.

We have paid, and may continue to pay, distributions from the proceeds of our offering. To the extent that we pay distributions from sources other than our cash flow from operations, we will have reduced funds available for investment and the overall return to our stockholders may be reduced.

Our organizational documents permit us to pay distributions from any source, including net proceeds from our public offerings, borrowings, advances from our sponsor or advisor and the deferral of fees and expense reimbursements by our advisor, in its sole discretion. Since our inception, our cash flow from operations has not been sufficient to fund all of our distributions. Of the \$37,731,499 in total distributions we paid during the period from our inception through June 30, 2019, including shares issued pursuant to our DRP, \$0, or 0%, were paid from cash provided by operating activities and \$37,731,499, or 100%, were paid from offering proceeds. Until we make substantial investments, we may continue to fund distributions from the net proceeds from our offering or sources other than cash flow from operations. We have not established a limit on the amount of offering proceeds, or other sources other than cash flow from operations, which we may use to fund distributions.

If we are unable to consistently fund distributions to our stockholders entirely from our cash flow from operations, the value of the shares of our common stock may be reduced, including upon a listing of our common stock, the sale of our assets or any other liquidity event should such event occur. To the extent that we fund distributions from sources other than our cash flow from operations, our funds available for investment will be reduced relative to the funds available for investment if our distributions were funded solely from cash flow from operations, our ability to achieve our investment objectives will be negatively impacted and the overall return to our stockholders may be reduced. In addition, if we make a distribution in excess of our current and accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, which will reduce the stockholder's tax basis in its shares of common stock. The amount, if any, of each distribution in excess of a stockholder's tax basis in its shares of common stock will be taxable as gain realized from the sale or exchange of property.

Our bylaws contain provisions that may make it more difficult for a stockholder to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, agents or employees, if any, and may discourage lawsuits against us and our directors, officers, agents or employees, if any.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have jurisdiction, the U.S. District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of our company, (ii) any action asserting a claim of breach of any duty owed by any of our directors or officers or employees to us or to our stockholders, (iii) any action asserting a claim against us or any of our directors or officers or employees arising pursuant to any provision of the Maryland General Corporation Law, or the MGCL, or our charter or bylaws or (iv) any action asserting a claim against us or any of our directors or officers or employees that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in our shares shall be deemed to have notice of and to have consented to these provisions of our bylaws, as they may be amended from time to time. Our board of directors, without stockholder approval, adopted this provision of the bylaws so that we can respond to such litigation more efficiently, reduce the costs associated with our responses to such litigation, particularly litigation that might otherwise be brought in multiple forums, and make it less likely that plaintiffs' attorneys will be able to employ such litigation to coerce us into otherwise unjustified settlements. This exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, agents or employees, if any, and may discourage lawsuits against us and our directors, officers, agents or employees, if any. We believe the risk of a court declining to enforce this provision is remote, as the General Assembly of Maryland has specifically amended the MGCL to authorize the adoption of such provisions. However, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings notwithstanding that the MGCL expressly provides that the charter or bylaws of a Maryland corporation may require that any internal corporate claim be brought only in courts sitting in one or more specified jurisdictions, we may incur additional costs that we do not currently anticipate associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition and results of operations.

Operational risks, including the risk of cyberattacks, may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our and our sponsor's financial, accounting, treasury, communications and other data processing systems. Such systems may fail to operate properly or become disabled as a result of tampering or a breach of the network security systems or otherwise. In addition, such systems are from time to time subject to cyberattacks which may continue to increase in sophistication and frequency in the future. Attacks on our sponsor and its affiliates or on third-party service providers' systems could result in, and in some instances have in the past resulted in, unauthorized access to our proprietary information or personal identifying information of our stockholders, or could destroy data or disable, degrade or sabotage our systems, including through the introduction of computer viruses and other malicious code.

Cyber security incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. Our sponsor and its affiliates and their portfolio entities' and third-party service providers' information and technology systems may be vulnerable to damage or interruption from cyber security breaches, computer viruses or other malicious code, network failures, computer and telecommunication failures, infiltration by unauthorized persons and other security breaches, usage errors by their respective professionals or service providers, power, communications or other service outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Cyberattacks and other security threats could originate from a wide variety of sources, including cyber criminals, nation state hackers, hacktivists and other outside parties. There has been an increase in the frequency and sophistication of the cyber and security threats our sponsor faces, with attacks ranging from those common to businesses generally to those that are more advanced and persistent. As a result, our sponsor may face a heightened risk of a security breach or disruption with respect to this information. If successful, these types of attacks on our sponsor's network or other systems could have a material adverse effect on our business and results of operations, due to, among other things, the loss of investor or proprietary data, interruptions or delays in the operation of our business and damage to our reputation. There can be no assurance that measures our sponsor takes to ensure the integrity of its systems will provide protection, especially because cyberattack techniques used change frequently or are not recognized until successful.

Although our sponsor has implemented various measures to manage risks relating to these types of events, such systems could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. Our sponsor does not control the cyber security of third-party service providers, and those service providers' systems have been attacked and may continue to be attacked in the future. Such third-party service providers may have limited or no indemnification obligations to our sponsor, us or our respective affiliates, each of whom could be negatively impacted as a result.

Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing them from being addressed appropriately. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our, our sponsor's its affiliates' and/or a portfolio entities' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to shareholders, material nonpublic information and the intellectual property and trade secrets and other sensitive information in the possession of our sponsor and/or portfolio entities. We, our sponsor or our affiliates could be required to make a significant investment to remedy the effects of any such failures, harm to their reputations, legal claims that they and their respective affiliates may be subjected to, regulatory action or enforcement arising out of applicable privacy and other laws, adverse publicity and other events that may affect their business and financial performance.

In addition, our sponsor operates in businesses that are highly dependent on information systems and technology. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. In addition, cybersecurity and data privacy have become top priorities for regulators around the world. Many jurisdictions in which our sponsor operates have laws and regulations relating to data privacy, cybersecurity and protection of personal information. Some jurisdictions have also enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. Breaches in security could potentially jeopardize our sponsor, its employees' or our investors' or counterparties' confidential and other information processed and stored in, and transmitted through our sponsor's computer systems and networks, or otherwise cause interruptions or malfunctions in its, its employees', our investors', our counterparties' or third parties' operations, which could result in significant losses, increased costs, disruption of our sponsor's business, liability to our investors and other counterparties, regulatory intervention or reputational damage. Furthermore, if our sponsor fails to comply with the relevant laws and regulations, it could result in regulatory investigations and penalties, which could lead to negative publicity and may cause our investors to lose confidence in the effectiveness of our or our sponsor's security measures.

Finally, we depend on our sponsor's headquarters in Houston, Texas, where most of our sponsor's personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without

interruption. Our sponsor’s disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On January 20, 2015, our Registration Statement on Form S-11 (File No. 333-198305) registering our offering of up to \$1,100,000,000 in shares of our common stock was declared effective and we commenced our initial public offering. In our initial public offering we offered up to \$1,000,000,000 in shares of any class of our common stock to the public in our primary offering and up to \$100,000,000 of shares of any class of our common stock pursuant to our DRP. The initial offering price of our common stock in our initial public offering was \$25.00 per share, and thereafter was adjusted based upon our annually determined estimated NAV per share.

On January 18, 2018, we filed a Registration Statement on Form S-11 (Registration No. 333-222610) with the SEC registering \$990,000,000 in any combination of our shares to be sold on a “best efforts” basis in our follow-on offering. Effective on July 19, 2018, the SEC declared the registration statement for our follow-on offering effective, we commenced our follow-on offering and we ceased selling shares pursuant to the registration statement for our initial public offering. Each class of our shares of common stock is currently offered (i) to the public in the primary offering at a purchase price of \$23.32 per share, equal to the NAV per share of such class as of December 31, 2018, and (ii) to our stockholders pursuant to the DRP at a purchase price of \$23.32 per share, equal to the NAV per share of such class as of December 31, 2018.

As of June 30, 2019, we had received and accepted investors’ subscriptions for and issued 8,510,459 shares in our initial public offering and our follow-on offering, excluding shares issued in connection with the Mergers and including 393,191 shares pursuant to the DRP, resulting in gross offering proceeds of \$198,665,114. As of June 30, 2019, we had received and accepted investors’ subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with our Mergers and including 214,764 shares pursuant to the DRP, resulting in gross offering proceeds of \$147,415,625 for the initial public offering. As of June 30, 2019, we had received and accepted investors’ subscriptions for and issued 2,384,466 shares in the follow-on offering, including 178,427 shares pursuant to the DRP, resulting in gross offering proceeds of \$51,249,489 for the follow-on offering.

As of June 30, 2019, we had incurred selling commissions, dealer manager fees and organization and other offering costs in our initial public offering in the amounts set forth in the table below (in thousands). Our dealer manager reallocated all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers (in thousands).

Type of Expense	Amount	Estimated/ Actual
Selling commissions, stockholder servicing fees and dealer manager fees	\$ 11,522	Actual
Finders’ fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	6,843	Actual
Total expenses	<u>\$ 18,365</u>	

As of June 30, 2019, we had incurred selling commissions, dealer manager fees, stockholder servicing fees and organization and other offering costs in our follow-on offering in the amounts set forth in the table below (in thousands). Our dealer manager reallocated all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers (in thousands).

Type of Expense	Amount	Estimated/ Actual
Selling commissions, stockholder servicing fees and dealer manager fees	\$ —	Actual
Finders’ fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	1,690	Actual
Total expenses	<u>\$ 1,690</u>	

As of June 30, 2019, the net offering proceeds to us from our initial public offering, after deducting the total expenses incurred as described above, were approximately \$129,050,510, excluding \$5,201,527 in offering proceeds from shares of our common stock issued pursuant to the DRP.

As of June 30, 2019, the net offering proceeds to us from our follow-on offering, after deducting the total expenses incurred as described above, were approximately \$49,559,510, excluding \$4,144,578 in offering proceeds from shares of our common stock issued pursuant to the DRP.

We intend to use the proceeds from our initial public offering and our follow-on offering to acquire additional hotel properties located in the East Coast, the West Coast and the Sunbelt regions of the United States. To a lesser extent, we may also invest in other hospitality properties located within other markets and regions as well as real estate securities and debt-related investments related to the hospitality sector.

As of June 30, 2019, we used approximately \$153,679,308 of the net proceeds from our initial public and follow-on offerings to acquire the Residence Inn Austin, the Springhill Suites Seattle, and the Moody I portfolio (pursuant to the Mergers), to reduce the debt on Springhill Suites Seattle, to originate the MN TX II note, and to reduce Term Loan and Short Term Loan debt. As of June 30, 2019, we had paid a cumulative amount of \$16,945,147 of acquisition expenses, including \$12,978,997 related to the Mergers.

During the three months ended June 30, 2019, we fulfilled redemption requests and redeemed shares of our common stock pursuant to our share redemption program as follows:

	Total Number of Shares Requested to be Redeemed⁽¹⁾	Average Price Paid per Share	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
April 2019	—	\$ —	(2)
May 2019	15,648.28	\$ 25.06	(2)
June 2019	—	\$ —	(2)
	<u>15,648.28</u>		

- (1) We generally redeem shares on the last business day of the month following the end of each fiscal quarter in which redemption requests were received. The 15,648.28 shares requested to be redeemed were redeemed during the quarter ended June 30, 2019 at an average price of \$25.06 per share.
- (2) The number of shares that may be redeemed pursuant to the share redemption program during any calendar year is limited to: (1) 5% of the weighted-average number of shares outstanding during the prior calendar year and (2) those that can be funded from the net proceeds we received from the sale of shares under the DRP during the prior calendar year plus such additional funds as may be reserved for that purpose by our board of directors. This volume limitation will not apply to redemptions requested within two years after the death of a stockholder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

- 3.1 Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305) filed January 12, 2015)
- 3.2 Articles of Amendment to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 12, 2017)
- 3.3 Articles Supplementary to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on June 12, 2017)
- 3.4 Bylaws of Moody National REIT II, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 (No. 333-198305))
- 10.1 Assignment and Assumption of Agreement and Purchase of Sale, dated April 29, 2019, by and between Moody National REIT II, Inc. and Moody National Kirby-Houston Holding, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 10.2 Hotel Lease Agreement, dated April 29, 2019 by and between Moody National Kirby-Houston Holding, LLC and Moody National Kirby-Houston MT, LLC (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 10.3 Hotel Management Agreement, dated February 20, 2019, by and between RI II MC-HOU, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 10.4 Assignment and Assumption of Hotel Management Agreement, dated April 29, 2019, by and between RI II MC-HOU, LLC and Moody National Kirby-Houston MT, LLC (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 10.5 Assignment and Assumption Agreement, dated April 29, 2019, by and among RI II MC-HOU, LLC, Moody National Kirby-Houston Holding, LLC, Brett C. Moody, Moody National Kirby-Houston MT, LLC, and American National Insurance Company (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 10.6 Promissory Note, dated September 13, 2017, by RI II MC-HOU, LLC in favor of American National Insurance Company (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 10.7 Construction Loan Agreement, dated September 13, 2017, by and between RI II MC-HOU, LLC and American National Insurance Company (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 10.8 Deed of Trust, Security Agreement and Financing Statement, dated September 13, 2017, by RI II MC-HOU, LLC for the benefit of American National Insurance Company (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 10.9 Promissory Note, dated April 29, 2019, by Moody National Operating Partnership II, LP in favor of RI IIMC-HOU, LLC (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K filed on May 3, 2019)
- 31.1* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOODY NATIONAL REIT II, INC.

Date: August 14, 2019

By: /s/ Brett C. Moody

Brett C. Moody
Chairman of the Board, Chief Executive Officer and
President
(Principal Executive Officer)

Date: August 14, 2019

By: /s/ Robert W. Engel

Robert W. Engel
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

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