

FIBRA TERRAFINA

**CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and
Subsidiaries**

**Condensed consolidated interim financial statements
for the period ended September 30, 2018**

Unaudited

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CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries
 Condensed consolidated interim statements of financial position
 (Expressed in thousands of Mexican Pesos)

	Note	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets			
Non-current assets			
Investment properties (Cost: 09/30/2018 - \$43,208,147; 12/31/2017 - \$44,811,102)	6	\$ 43,467,507	\$ 45,959,558
Investments accounted using equity method	8	427,862	433,762
Derivative financial instruments	6 and 7	87,003	30,015
Deferred rents receivable		188,416	167,548
Loan receivable (Cost: 09/30/2018 - \$35,529; 12/31/2017 - \$38,364)	6	35,529	38,364
Restricted cash		34,979	36,660
Total non-current assets		44,241,296	46,665,907
Current assets			
Other assets		57,749	25,832
Loan receivable (Cost: 09/30/2018 - \$1,345; 12/31/2017 - \$1,244)	6	1,345	1,244
Recoverable taxes		306,083	683,535
Prepaid expenses		3,785	11,772
Deferred rents receivable		19,624	30,630
Accounts receivable (Net of allowance for doubtful accounts: 09/30/2018 - \$60,595; 12/31/2017 - \$30,728)		142,592	58,638
Cash		1,911,178	3,209,041
Total current assets		2,442,356	4,020,692
Total assets		46,683,652	50,686,599
Net assets attributable to the investors			
Contributions, net		\$ 19,199,208	\$ 19,844,088
Retained earnings		-	48,063
Translation from functional to reporting currency		7,782,663	9,169,409
Total net assets attributable to the investors	10	26,981,871	29,061,560
Liabilities			
Non-current liabilities			
Borrowings (Principal balance: 09/30/2018 - \$18,649,219; 12/31/2017 - \$20,502,056)	6 and 9	\$ 18,871,083	\$ 20,889,561
Tenant deposits		288,825	332,077
Accounts payable		4,756	4,527
Total non-current liabilities		19,164,664	21,226,165
Current liabilities			
Borrowings (Principal balance: 09/30/2018 - \$244,771; 12/31/2017 - \$134,872)	6 and 9	244,771	134,872
Tenant deposits		96,595	56,692
Accounts payable		195,751	207,310
Total current liabilities		537,117	398,874
Total liabilities (excluding net assets attributable to the investors)		19,701,781	21,625,039
Total net assets attributable to the investors and liabilities		\$ 46,683,652	\$ 50,686,599

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries
 Condensed consolidated interim statements of income and other comprehensive income
 (Expressed in thousands of Mexican Pesos)
 (Unaudited)

	Note	For the three months ended September 30, 2018	For the nine months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2017
Rental revenues		\$ 917,752	\$ 2,743,271	\$ 743,212	\$ 2,344,068
Other operating income		59,131	219,502	67,047	232,509
Real estate operating expenses		(115,158)	(452,296)	(114,822)	(442,170)
Fees and other expenses		(100,183)	(301,648)	(126,803)	(315,718)
Realized gain (loss) from disposal of investment properties	6	-	(17,836)	(5,752)	(2,476)
Net unrealized gain (loss) from fair value adjustment on investment properties	6	(292,620)	(851,418)	103,056	(9,746)
Net unrealized gain (loss) from fair value adjustment on borrowings		(237,530)	161,391	(134,788)	(647,456)
Net unrealized gain (loss) from fair value adjustment on derivative financial instruments		20,168	59,089	4,685	9,090
Net realized gain (loss) from derivative financial instruments		2,943	2,736	-	-
Foreign exchange gain		48,767	105,927	14,822	281,606
Foreign exchange loss		(5,763)	(87,242)	(86,702)	(147,157)
Operating profit		297,507	1,581,476	463,955	1,302,550
Finance income		7,654	11,884	3,611	6,881
Finance cost		(258,089)	(761,117)	(214,067)	(680,899)
Finance cost - net		(250,435)	(749,233)	(210,456)	(674,018)
Share of profit from equity accounted investments	8	7,457	20,400	(3,660)	11,659
Profit for the period		\$ 54,529	\$ 852,643	\$ 249,839	\$ 640,191
Translation gain (loss) from functional to reporting currency		(1,546,259)	(1,386,746)	540,918	(2,759,230)
Total comprehensive profit (loss) for the period		\$ (1,491,730)	\$ (534,103)	\$ 790,757	\$ (2,119,039)
Earnings per CBF					
Basic earnings per CBF			\$ 10.78		\$ 10.54
Diluted earnings per CBF			\$ 10.78		\$ 10.54

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

FIBRA Terrafina

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries
 Condensed consolidated interim statements of changes in net assets attributable to the investors
 For the period ended September 30, 2018 and September 30, 2017
 (Expressed in thousands of Mexican Pesos)
 (Unaudited)

	Note	Attributable to investors			
		Net contributions	Translation from functional to reporting currency	Retained earnings (losses)	Net assets
Balance at January 1, 2017		\$ 14,782,859	\$ 9,663,287	\$ 334,283	\$ 24,780,429
CBFIs issued		5,390,049	-	-	5,390,049
Distributions to the investors		(328,820)	-	(974,474)	(1,303,294)
Comprehensive income					
Profit for the period		-	-	640,191	640,191
Other comprehensive income					
Translation from functional to reporting currency		-	(2,759,230)	-	(2,759,230)
Total comprehensive (loss) income		-	(2,759,230)	640,191	(2,119,039)
Net assets attributable to the investors at September 30, 2017	10	\$ 19,844,088	\$ 6,904,057	\$ -	\$ 26,748,145
Balance at January 1, 2018		\$ 19,844,088	\$ 9,169,409	\$ 48,063	\$ 29,061,560
Distributions to the investors		(644,880)	-	(900,706)	(1,545,586)
Comprehensive income					
Profit for the period		-	-	852,643	852,643
Other comprehensive income					
Translation from functional to reporting currency		-	(1,386,746)	-	(1,386,746)
Total comprehensive income		-	(1,386,746)	852,643	(534,103)
Net assets attributable to the investors at September 30, 2018	10	\$ 19,199,208	\$ 7,782,663	\$ -	\$ 26,981,871

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

FIBRA Terrafina

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries
 Condensed consolidated interim statements of cash flows
 (Expressed in thousands of Mexican Pesos)
 (Unaudited)

	Note	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Cash flows from operating activities:			
Profit for the period		\$ 852,643	\$ 640,191
Adjustments:			
Net unrealized gain (loss) from fair value adjustment on investment properties	6	851,418	9,746
Net unrealized gain (loss) from fair value adjustment on borrowings		(161,391)	647,456
Net unrealized gain (loss) from fair value adjustment on derivative financial instruments		(59,089)	(9,090)
Realized gain (loss) from disposal of investment properties	6	17,836	2,476
Bad debt expense		39,131	30,185
Interest expense		696,292	632,608
Interest income on bank accounts		(10,309)	(5,267)
Share of profit from equity accounted investments	8	(20,400)	(11,659)
(Increase) decrease in:			
Deferred rents receivable		(9,862)	5,580
Accounts receivable		(123,085)	(63,402)
Recoverable taxes		843,689	(1,328,727)
Value added tax refunded		(466,237)	1,198,773
Prepaid expenses		7,987	8,801
Other assets		(31,917)	51,999
Increase (decrease) in:			
Tenant deposits		(3,349)	44,945
Accounts payable		(11,330)	28,838
Net cash generated from operating activities		2,412,027	1,883,453
Cash flows from investing activities:			
Acquisition of investment properties	6	(481,977)	(9,822,667)
Improvements of investment properties	6	(48,665)	(180,477)
Proceeds from dispositions of investment properties		-	133,751
Acquisition prepayment		-	9,195
Interest income on bank accounts		10,309	5,267
Investments in joint venture	8	4,346	(141,401)
Principal collections on loan receivable		888	829
Net cash used in investing activities		(515,099)	(9,995,503)
Cash flows from financing activities:			
Proceeds from borrowings		-	9,728,294
Principal payments on borrowings		(882,301)	(2,895,373)
Interest expense		(587,265)	(508,197)
Restricted cash		1,681	55,371
Distributions to investors		(1,545,586)	(1,303,294)
Proceeds from CBFI's		-	5,390,049
Net cash (used in) generated from financing activities		(3,013,471)	10,466,850
Net (decrease) increase in cash		(1,116,543)	2,354,800
Cash at the beginning of the period		3,209,041	4,297,096
Exchange rate effects on cash		(181,320)	6,795
Cash at the end of the period		\$ 1,911,178	\$ 6,658,691

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

Notes to the condensed consolidated interim financial statements for the period ended September 30, 2018

(Unaudited)

(All amounts in thousands of Mexican Pesos, unless otherwise stated)

1. REPORTING ENTITY

Terrafina (“Terrafina” or “the Trust”) is a Mexican trust created pursuant to Trust Agreement F/00939 dated January 29, 2013 (as amended on March 15, 2013) entered into by and among PLA Administradora Industrial, S. de R.L. de C.V. as trustor and beneficiary and CI Banco S.A., Institución de Banca Múltiple, as trustee (“the Trustee”) and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, as common representative of the real estate trust certificate (“Certificados Bursátiles Fiduciarios Inmobiliarios” or “CBFI’s”) holders. The term of the Trust is undefined.

Terrafina is an industrial portfolio created mainly to acquire, build, own, develop, lease and manage real estate properties in Mexico, as well as to provide financing for said purposes secured by the respective related leased real estate properties.

Terrafina’s registered address is Presidente Masaryk 61, 7th floor, Chapultepec Morales, Miguel Hidalgo, Mexico City, 11570.

Terrafina is treated as a Real Estate Investment Trust for Mexican income tax purposes (also known as a Mexican “FIBRA”) according with Articles 187 and 188 of the Mexican Federal Income Tax Law (“*Ley del Impuesto sobre la Renta*”).

In order to carry out its operations, the Trust has entered into the following agreements:

- (i) An advisory agreement with PLA Administradora Industrial, S. de R.L. de C.V. (“the Advisor”), an affiliated company of PGIM Real Estate, which will provide advisory and real estate investment management services, as well as other related services.
- (ii) A management agreement with TF Administradora, S. de R.L. de C.V. (“the Manager”), in order for the latter to carry out certain management services on behalf of the Trust.

Capitalized terms used herein without definition shall have the meanings assigned to them in the Trust Agreement F/00939, or in the management and advisory agreements of the Trust.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The enclosed condensed consolidated interim financial statements have been prepared in accordance with the International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* which is part of the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standard Board (“IASB”) and its interpretations, issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The condensed consolidated interim financial statements do not include all the information and disclosure required in annual consolidated financial statements in accordance with IFRSs, and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2017, which were prepared in accordance with IFRS. There are no new IFRSs or IFRIC interpretations effective for periods beginning January 1, 2018 applicable to Terrafina.

The enclosed condensed consolidated interim financial statements were authorized for issuance by the Terrafina Audit and Technical Committees on October 24, 2018.

(b) Judgments and estimates

Preparation of condensed consolidated interim financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to apply its judgment in the process of applying the Trust’s accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period in which the assumptions change. Management believes that the underlying assumptions are appropriate. The accounting policies, judgments and estimates used in the preparation of the condensed consolidated interim financial statements are consistent with those applied in the consolidated financial statements as of and for the year ended December 31, 2017.

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CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

Notes to the condensed consolidated interim financial statements for the period ended September 30, 2018

(Unaudited)

(All amounts in thousands of Mexican Pesos, unless otherwise stated)

3. SIGNIFICANT TRANSACTIONS

On January 10, 2017, Terrafina made the second drawdown of the Citibank, N.A. (“Citibank”) loan, originally granted on August 25, 2015, for US\$295 million of United States Dollars (“Dollar(s) or “USD”) (\$6,288 million of “Mexican Pesos” or “MXN”). The cash received was used to pay the portfolio acquisition mentioned below.

On January 12, 2017, Terrafina acquired a portfolio of 45 industrial properties, for US\$380 million Dollars (\$8,228 million of Mexican Pesos). The rights to the existing leases were also acquired. This transaction generated a recoverable value added tax (“VAT”) balance of \$1,127 million of Mexican Pesos, which was reimbursed to the Trust during July 2017.

On January 31, 2017, Terrafina entered into a new credit facility with Metropolitan Life Insurance Company (“Metlife”) for US\$150 million Dollars (\$3,153 million of Mexican Pesos) with a maturity of 10 years and a 4.75% coupon rate. The cash received was used to fully prepay the preexisting debt with Metlife and BRE debt México II, S. A. de C. V. SOFOM ENR (“BRE”).

On April 28, 2017, the Nominating Committee, approved exercising 91,142 CBFIs for payment of the incentive plan granted as compensation to selected participants of the management of Terrafina.

On July 19, 2017, Terrafina carried out its third public placement of 183,546,039 CBFIs which includes an over-allotment option, through a global offering as follows:

- (a) An international offering of 94,458,802 CBFIs.
- (b) A simultaneous public offering in Mexico of 65,146,449 CBFIs.
- (c) Over-allotment option of 23,940,788 CBFIs.

On August 15, 2017, Terrafina acquired the trust rights of a portfolio of 5 industrial properties, for US\$34 million Dollars (\$602 million of Mexican Pesos), as a result of this acquisition, the Trust entered into credit facility with Seguros Monterrey New York Life (“SMNYL”) for US\$16 million Dollars (\$287 million of Mexican Pesos). The rights to the existing leases were also acquired within the scope of this transaction. This transaction originated a recoverable VAT balance, which is expected to be reimbursed to the Trust during 2018.

On September 19, 2017, Terrafina acquired 2 industrial properties, for US\$19 million Dollars (\$343 million of Mexican Pesos). The rights to the existing leases were also acquired within the scope of this transaction. This transaction originated a recoverable VAT balance, which is expected to be reimbursed to the Trust during 2018.

On October 27, 2017 Terrafina acquired a new unsecured syndicated revolver loan with Banco Nacional de Mexico, S. A. (“Banamex”) as administrative agent for an amount of US\$350 million Dollars (\$6,726 million of Mexican Pesos). The received cash resources were used to fully prepay the debt due to BBVA Bancomer, S. A. (“Bancomer”) and JPMorgan Chase Bank, N. A. (“JPM”), and to also pay US\$196.5 million Dollars (\$3,776 million of Mexican Pesos) of the revolver loan with Citibank.

On December 7, 2017, Terrafina acquired a portfolio of 17 industrial properties (including collection rights), for US\$180 million Dollars (\$3,329 million of Mexican Pesos). The rights to the existing leases were also acquired within the scope of this transaction. This transaction originated a recoverable VAT balance, which were reimbursed to the Trust during June 2018.

During 2017, the Mexican tax authorities refunded VAT to the Trust for US\$69.1 million Dollars (\$1,255 million of Mexican Pesos).

On January 26, 2018, Terrafina entered into a fiduciary substitution agreement, between HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria and Banco Actinver, S.A., Institución de Banca Múltiple, Grupo Financiero (See Note 5).

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CI Banco S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries

Notes to the condensed consolidated interim financial statements for the period ended September 30, 2018

(Unaudited)

(All amounts in thousands of Mexican Pesos, unless otherwise stated)

3. SIGNIFICANT TRANSACTIONS (continued)

On January 31, 2018, Terrafina closed a renegotiation of terms and conditions for its revolving credit facility with Citibank. The main changes for the syndicated credit facility include: 1) the extension of the original maturity date to 2023 (a four-year maturity with the option to extend one additional year); 2) a 20-basis point interest rate reduction which changed the interest rate from London interbank offered rate ("LIBOR") plus 265 basis points to LIBOR plus 245 basis points; and 3) the option to increase the preexisting US\$300 million Dollars revolving line of credit for up to US\$400 million Dollars.

On March 23, 2018, Terrafina prepaid an amount of US\$47 million Dollars (\$874 million of Mexican Pesos) of the revolving credit facility with Citibank.

On April 25, 2018, Terrafina acquired 2 industrial properties, for US\$25.5 million Dollars (\$482 million of Mexican Pesos). The rights to the existing leases were also acquired within the scope of this transaction. This transaction originated a recoverable VAT balance, which is expected to be reimbursed to the Trust during 2018.

On July 16, 2018, Terrafina acquired a two-year interest rate CAP for a notional amount of US\$150 million, at a strike price of 2.75%.

On July 20, 2018, Terrafina entered into a fiduciary substitution agreement, between HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria and CI Banco, S.A., Institución de Banca Múltiple (See Note 5).

During 2018, the Mexican tax authorities refunded VAT to the Trust for US\$22.6 million Dollars (\$466 million of Mexican Pesos).

4. RECLASIFICACIONES

Certain amounts on the condensed consolidated interim financial statements of prior periods have been reclassified according with the current period presentation. Such reclassifications had no effect over the prior issued consolidated financial statements.

5. CONSOLIDATION BASIS

These condensed consolidated interim financial statements include net assets as of September 30, 2018 and December 31, 2017 and results of operations of the entities listed below controlled by Terrafina as of and for the nine months period ended September 30, 2018 and 2017. All significant intercompany balances and transactions have been eliminated from the condensed consolidated interim financial statements.

Subsidiaries

Subsidiaries are all entities over which the Trust has control. The Trust controls an entity when it is exposed or has rights to variable returns as a result of their involvement in it, also has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Trust. They are deconsolidated from the date that control ceases.

Trustee: HSBC México, S. A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria as trustee of the following trusts:

- Trust F/307904
- Trust F/307939
- Trust F/307955
- Trust F/307980

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Notes to the condensed consolidated interim financial statements for the period ended September 30, 2018

(Unaudited)

(All amounts in thousands of Mexican Pesos, unless otherwise stated)

5. CONSOLIDATION BASIS (continued)

Trustee: Banco Invex, S. A., Institución de Banca Múltiple, Invex Grupo Financiero as trustee of the following trusts:

- Trust F/1411
- Trust F/1412
- Trust F/2609

Trustee: Deutsche Bank México, S. A., Institución de Banca Múltiple, División Fiduciaria as trustee of the following trusts:

- Trust F/128
- Trust F/129
- Trust F/824
- Trust F/1487

Trustee: CI Banco, S. A., Institución de Banca Múltiple, as trustee of the following trusts:

- Trust F/666
- Trust F/463
- Trust F/824
- Trust F/2171
- Trust F/2989 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307831)
- Trust F/2990 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307840)
- Trust F/2991 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307874)
- Trust F/2992 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307882)
- Trust F/2993 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307912)
- Trust F/2994 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307920)
- Trust F/2995 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307947)
- Trust F/2996 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307963)
- Trust F/2997 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/308048)

Trustee: Banco Actinver, S. A., Institución de Banca Múltiple, Grupo Financiero Actinver as trustee of the following trusts:

- Trust F/3186
- Trust F/3232 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307890)
- Trust F/3230 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307858)
- Trust F/3234 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/308030)
- Trust F/3233 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307971)
- Trust F/3231 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307866)

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Notes to the condensed consolidated interim financial statements for the period ended September 30, 2018

(Unaudited)

(All amounts in thousands of Mexican Pesos, unless otherwise stated)

5. CONSOLIDATION BASIS (continued)

- Trust F/3229 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307823)
- Trust F/3236 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/308293)
- Trust F/3235 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/308285)

TF Administradora, S. de R.L. de C.V.: All operations related between this entity and the Trust have been eliminated in these consolidated financial statements, disclosed in Note 11 for compliance with the financial reporting standards and other informative business purposes; the other operations of the entity are included in the consolidated interim financial statements of the Trust (See Note 11).

The entities mentioned below, are accounted for using the equity method:

Investment in joint ventures, in its percentage of participation, includes net assets and the results of operations of the entities mentioned below:

Trustee: Monex Casa de Bolsa, S.A. de C.V., as trustee of the following trusts:

- Trust F/2717
- Trust F/3485

6. FAIR VALUE MEASUREMENTS

IFRS 13 guide on fair value measurements and disclosures establishes a fair value measurement framework, provides a sole definition of fair value and requires expanded disclosures summarizing fair value measurements. This standard provides a three-level hierarchy based on inputs used in the valuation process. The level in the fair value hierarchy under which fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the entity for identical assets or liabilities. These quoted prices generally provide the most reliable evidence and should be used to measure fair value whenever available.

Level 2 – Fair value is based on inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly or indirectly, substantially for the full term of the asset or liability through corroboration of observable market data.

Level 3 – Fair value is based on significant unobservable inputs for the asset or liability. Such inputs reflect the entity's own assumptions about how market participants would price the asset or liability.

a. Investment Properties

In general terms, the fair value estimations are provided by independent real estate appraisers (members of the Appraisal Institute or an equivalent organization) on a quarterly basis for operating properties. Acquisitions are carried at purchase price and valued within a reasonable amount of time following the acquisition (typically within 12 months). The chief real estate appraiser of PGIM, Inc., an affiliated company of the Advisor and the Manager, is responsible for ensuring that the valuation process provides independent and reasonable property fair value estimates.

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Notes to the condensed consolidated interim financial statements for the period ended September 30, 2018

(Unaudited)

(All amounts in thousands of Mexican Pesos, unless otherwise stated)

6. FAIR VALUE MEASUREMENTS (continued)

a. Investment Properties (continued)

The purpose of an appraisal is to estimate the fair value of Investment Properties at a specific date. Fair value is defined as the price to be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value estimate is predominately based on the discounting of a series of income cash flows and their reversion at a specific yield. Key assumptions include rental income and expense amounts, discount rates and capitalization rates.

In general terms, inputs used in the appraisal process are unobservable; therefore, unless otherwise indicated, Investment Properties are classified as Level 3 under the guidance on fair value measurement hierarchy.

As described above, the estimated fair value of Investments Properties is generally determined through an appraisal process. Those estimated fair values may vary significantly from the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined through negotiations between a willing buyer and a seller. Such differences could be material to the consolidated financial statements.

The independent appraiser used the following unobservable inputs based on discounted cash flow method.

Most significant unobservable inputs:

- Discount rate: The internal yield rate (“internal rate of return” or “IRR”) is the single rate that discounts all future assets benefits to net present value. The discount rate as of September 30, 2018 and December 31, 2017, was 8.42% (ranges between 8.25% to 12%) and 9.26% (ranges between 7.85% to 12%), respectively.
- Market yield growth rate: Based on information gathered from surveys, as well as market experience and management’s projections. Market yield growth rate ranges between 2% and 3% for both periods.
- Vacancy and collection loss assumptions: This is a function of the interrelationship between absorption, lease expiration, renewal probability, and estimated downtime between leases and a collection loss factor based on the relative stability and credit of the subject’s tenant base. Vacancy assumption used by the Trust’s management as of September 30, 2018 and December 31, 2017 was 5% and collection loss 1% for both periods.

Significant increases (decreases) in the discount rate would result in a significantly lower (higher) fair value measurement. However, an increase (decrease) in any of the other two factors would result in a higher (lower) fair value measurement.

Unrealized gain (loss) from fair value adjustment on Investment Properties is included in the condensed consolidated interim statements of comprehensive income.

b. Borrowings and loan receivables

Valuation process for Trust borrowings and loan receivables:

The valuations for financial reporting purposes, including Level 2 fair values, are prepared by an independent third party and they are based on discounted cash flows. Discussions of valuation processes and results are held between the vice president of capital markets and the appraiser at least once every year.

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6. FAIR VALUE MEASUREMENTS (continued)

b. Borrowings and loan receivables (continued)

The significant Level 2 inputs used by the Trust are derived and evaluated as follows:

- Reference interest rates: The interest rate curves applicable to each borrowing are used in accordance with the contractual conditions.
- Credit risk: Estimated based on the spread over the reference interest rate of comparable borrowings available in public sources of information or in other sources available to the Trust.
- Country risk: The index of emerging market bonds applicable to Mexico is used to adjust the credit risk of comparable borrowing when necessary

The discount rate resulting from adding to the benchmark interest rate the credit risk of comparable debts, as of September 30, 2018 and December 31, 2017, ranges between 5.03% and 6.18% and 4.31% and 5.46%, respectively.

A significant increase (decrease) would result in a significantly lower (high) fair value.

Level 2 and 3 fair values are analyzed at each reporting date during quarterly valuation discussions between the parties involved in the process.

c. Derivative financial instruments

The Trust records interest rate “Caps” and fixed rate options at fair value, which is determined by an independent third party using discounted cash flow models. Key assumptions used in the discounted cash flow model include the contractual terms of the agreement, along with significant observable inputs, including interest rates. Those derivatives are traded in the over-the-counter (“Over the counter” or “OTC”) market and are classified within Level 2 in the fair value hierarchy.

The tables below summarize assets and liabilities measured at fair value on a recurring basis and their respective level in the fair value hierarchy:

Fair Value Measurements at September 30, 2018

	Cost	Amounts measured at fair value	Level 1	Level 2	Level 3
Assets:					
Investment properties	\$ 43,208,147	\$ 43,467,507	\$ -	\$ -	\$ 43,467,507
Derivative financial instruments	-	87,003	-	87,003	-
Loan receivable	36,874	36,874	-	36,874	-
Total assets	\$ 43,245,021	\$ 43,591,384	\$ -	\$ 123,877	\$ 43,467,507
Liabilities:					
Borrowings	\$ 18,893,990	\$ 19,115,854	\$ -	\$ 19,115,854	\$ -
Total liabilities	\$ 18,893,990	\$ 19,115,854	\$ -	\$ 19,115,854	\$ -

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6. FAIR VALUE MEASUREMENTS (continued)

Fair Value Measurements at December 31, 2017

	Cost	Amounts measured at fair value	Level 1	Level 2	Level 3
Assets:					
Investment properties	\$ 44,811,102	\$ 45,959,558	\$ -	\$ -	\$ 45,959,558
Derivative financial instruments	-	30,015	-	30,015	-
Loan receivable	39,608	39,608	-	39,608	-
Total assets	\$ 44,850,710	\$ 46,029,181	\$ -	\$ 69,623	\$ 45,959,558
Liabilities:					
Borrowings	\$ 20,636,928	\$ 21,024,433	\$ -	\$ 21,024,433	\$ -
Total liabilities	\$ 20,636,928	\$ 21,024,433	\$ -	\$ 21,024,433	\$ -

The tables below show the reconciliation of the beginning and ending balances for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended September 30, 2018 and December 31, 2017.

Fair value measurements using significant unobservable inputs (Level 3)

	Beginning balance 01/01/18	Realized and unrealized net gain (loss)	Currency translation	Acquisitions and capital expenditures	Dispositions	Ending balance 09/30/18	Unrealized gain (loss) for the period for investments still held at 09/30/18
Assets:							
Investment properties	\$45,959,558	\$ (869,254)	\$ (2,153,439)	\$ 530,642	\$ -	\$ 43,467,507	\$ (292,620)
Total assets	\$45,959,558	\$ (869,254)	\$ (2,153,439)	\$ 530,642	\$ -	\$ 43,467,507	\$ (292,620)

Fair value measurements using significant unobservable inputs (Level 3)

	Beginning balance 01/01/17	Realized and unrealized net gain (loss)	Currency translation	Acquisitions and capital expenditures	Dispositions	Ending balance 12/31/17	Unrealized gain (loss) for the period for investments still held at 12/31/17
Assets:							
Investment properties	\$34,719,694	\$ 7,615	\$ (2,045,177)	\$ 13,475,103	\$ (197,677)	\$ 45,959,558	\$ 72,303
Total assets	\$34,719,694	\$ 7,615	\$ (2,045,177)	\$ 13,475,103	\$ (197,677)	\$ 45,959,558	\$ 72,303

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7. DERIVATIVE FINANCIAL INSTRUMENTS

The Trust entered into interest rate derivatives contracts in order to manage the potential impact of interest rate fluctuations on the borrowings described in Note 9.

On July 16, 2018, the Trust acquired a two-year interest rate CAP for a notional amount of US\$150 million, at a strike price of 2.75%.

The outstanding derivative financial instruments as of September 30, 2018 and at December 31, 2017, are summarized as follows:

September 30, 2018							
Derivative type	Bank	Notional amount (USD)	Underlying variable rate	Strike price	Fair value	Inception date	Maturity date
Fixed rate options	Barclays	105,000	3M LIBOR	1.768%	\$ 72,639	May 18, 2017	October 4, 2021
Cap options	JP Morgan	150,000	3M LIBOR	2.750%	14,364	Jul 16, 2018	July 15, 2020
Total					\$ 87,003		

December 31, 2017							
Derivative type	Bank	Notional amount (USD)	Underlying variable rate	Strike price	Fair value	Inception date	Maturity date
Caps options	JPM	100,000	3M LIBOR	1.750%	\$ 15	May 18, 2017	April 25, 2018
Fixed rate option	HSBC	120,000	3M LIBOR	1.286%	2,132	May 18, 2017	April 25, 2018
Fixed rate option	Barclays	105,000	3M LIBOR	1.768%	27,868	May 18, 2017	October 4, 2021
Total					\$ 30,015		

8. INVESTMENTS ACCOUNTED USING EQUITY METHOD

The Trust has two joint venture agreements with the following entities:

- Controladora and Parques American Industries, S.A. of C.V., with an equity interest of 50% for each one of the parties involved (Trust F/2717).
- Avante, with an equity interest of 50% for each one of the parties involved (Trust F/3485).

Entity name	Country of establishment / Principal activity	Ownership interest as of September 30, 2018	Ownership interest as of December 31, 2017	September 30, 2018	December 31, 2017
Fideicomiso F/2717	Mexico / Lease of properties	50%	50%	\$374,858	\$382,056
Fideicomiso F/3485	Mexico / Lease of properties	50%	50%	\$ 54,186	\$ 51,706

Below shows the reconciliation of the ending balances at September 30, 2018 and December 31, 2017.

	September 30, 2018	December 31, 2017
Initial balance	\$ 433,762	\$ 233,548
Capital contributions (distributions)	(4,346)	155,656
Share of profit from equity accounted investments	20,400	18,807
Currency translation adjustment	(21,954)	25,751
Ending balance	\$ 427,862	\$ 433,762

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9. BORROWINGS

Borrowings include mortgage loans payable as summarized below:

Credit entity/ Instrument	September 30, 2018		December 31, 2017		Interest rate (p.a.) ^{[1], [2]}	Maturity date	Terms ^[3]
	Principal balance	Fair value	Principal balance	Fair value			
BOND	\$ 8,158,206	\$ 8,380,070	\$ 8,449,583	\$ 8,837,088	Fixed - 5.25%	November, 2022	I
Banamex	6,643,827	6,643,827	6,952,822	6,952,822	3 months LIBOR + 2.45% ^[5]	October, 2022	I ^[7]
Metlife	2,821,800	2,821,800	2,960,310	2,960,310	Fixed - 4.75%	January, 2027	I ^[8]
Citibank ^[4]	977,461	977,461	1,958,898	1,958,898	3 months LIBOR + 2.45% ^[5]	January, 2023 ^[9]	I
SMNYL ^[6]	292,696	292,696	315,315	315,315	Fixed - 5.19%	February, 2020	P&I
Total borrowings	\$ 18,893,990	\$ 19,115,854	\$ 20,636,928	\$ 21,024,433			

[1] p.a. = per year.

[2] At September 30, 2018, and December 31, 2017, the 3 months LIBOR rate was 2.3983% and 1.6943%, respectively.

[3] P&I = Principal and interest; I = Interest only.

[4] Unsecured, committed, revolving credit, up to an amount of US\$300 million Dollars with an option to increase it up to US\$400 million Dollars (Note 3).

[5] The margin may vary according to the Rating and Loan to Value ("LTV") ratio.

[6] Loan includes two drawdowns with a fixed rate of 5.19% and 4.84%.

[7] Interest only until January 2021.

[8] Interest only until February 2024.

[9] Maturity date: January 2023 - a four-year maturity with an option to extend one additional year.

On January 31, 2018, Terrafina closed a renegotiation of terms and conditions for its revolving credit facility with Citibank. The main changes for the syndicated credit facility include: 1) the extension of the original maturity date to 2023 (a four-year maturity with the option to extend one additional year); 2) a 20-basis point interest rate reduction which changed the interest rate, from LIBOR plus 265 basis points to LIBOR plus 245 basis points; and 3) the option to increase the preexisting US\$300 million Dollars revolving line of credit for up to US\$400 million Dollars.

On March 23, 2018, Terrafina prepaid an amount of US\$47 million Dollars (\$874 million of Mexican Pesos) of the revolving credit facility with Citibank.

As of September 30, 2018, the Metlife debt is collateralized by Investment Properties with an aggregate estimated fair value of \$7,505,236 Mexican Pesos.

As of September 30, 2018, and December 31, 2017, fair value borrowings are payable as follows:

	<1 year	1 - 3 years	>3 years	Total
September 30, 2018	\$ 244,771	\$ 544,151	\$ 18,326,932	\$ 19,115,854
December 31, 2017	\$ 134,872	\$ 302,875	\$ 20,586,686	\$ 21,024,433

All the loans are denominated in Dollars. Terrafina is benefited from not paying principal amortizations in respect of the following facilities until the following dates: Banamex until January 2021 and Metlife until February 2024. The revolving credit line and the bond are not subject to capital amortizations until their respective expiration dates.

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9. BORROWINGS (continued)

The Trust's exposure to the risk from changes in interest rates is largely related to the long-term borrowings. The Trust manages its interest rate risk through a combination of fixed-rate and variable-rate borrowings. In general, short-term borrowings may be subject to a floating rate while longer-term borrowings are typically subject to a fixed rate or a floating rate.

10. NET ASSETS ATTRIBUTABLE TO THE INVESTORS

Net assets consist of the initial contribution and the proceeds from the issued CBFIs.

As of September 30, 2018, the Trust had a contribution for \$21,334,894 and it consist of 791,014,635 of CBFIs in circulation as follows:

No. of CBFIs	Details		Contributions
607,377,454	As of January 1, 2017	\$	15,944,845
91,142	CBFI's exercised on April 28, 2017		2,886
183,546,039	CBFI's exercised on July 19, 2017		5,387,163
<u>791,014,635</u>	<u>As of September 30, 2018</u>	<u>\$</u>	<u>21,334,894</u>

The Technical Committee approved and paid distributions as an upfront payment to the CBFIs holders.

<u>Distribution Date</u>	<u>Amount</u>
March 13, 2018	\$ 484,870
May 11, 2018	505,423
August 10, 2018	555,293
Total Distribution 2018	<u><u>\$ 1,545,586</u></u>

Distribution of \$484,870 was considered \$412,786 as tax distribution and \$72,084 considered as capital reimbursement (redemption), also distribution of \$505,423 and \$555,293 were considered as capital reimbursement (redemption).

11. RELATED PARTIES

The following detail, includes the Trust outstanding related parties' activities:

Manager

The Trust reimburses the Manager for all costs incurred in carrying out its functions plus VAT.

The reimbursed costs for the periods ended September 30, 2018 and September 30, 2017 were \$6,051 and \$17,965 respectively and were eliminated at consolidation.

Advisor

The Trust paid a management fee to the Advisor, equivalent to 0.5% per annum of the gross cost of the real estate assets plus the annual inflation rate and VAT.

The management fee accrued for the three months ended September 30, 2018 and September 30, 2017 were \$55,988 and \$47,861, respectively.

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12. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business there can be various legal actions related to properties of the Trust. At September 30, 2018, the Trust's management was not aware of any such matter that had or would have a material effect on Trust's financial condition or results of operations.

13. SUBSEQUENT EVENTS

On October 24, 2018, the Technical Committee approved a distribution payment of \$553,120 corresponding to \$.6993 cents per CBF.