

FIBRA TERRAFINA

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

**Condensed consolidated interim financial statements
for the period ended March 31, 2019**

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	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets			
Non-current assets			
Investment properties (Cost: 03/31/2019 - \$44,651,571; 12/31/2018 - \$45,437,152)	6	\$ 45,060,870	\$ 45,880,211
Investments accounted using equity method	7	540,015	547,708
Derivative financial instruments	6 and 8	32,313	52,074
Deferred rents receivable		220,306	203,915
Other assets		136,709	-
Loan receivable (Cost: 03/31/2019 - \$36,045; 12/31/2018 - \$36,841)	6	36,045	36,841
Restricted cash		36,034	36,599
Total non-current assets		46,062,292	46,757,348
Current assets			
Other assets		64,581	59,612
Loan receivable (Cost: 03/31/2019 - \$1,304; 12/31/2018 - \$1,421)	6	1,304	1,421
Recoverable taxes		148,122	165,677
Prepaid expenses		8,755	10,227
Deferred rents receivable		25,859	19,624
Accounts receivable (Net of allowance for doubtful accounts: 03/31/2019 - \$95,192; 12/31/2018 - \$84,059)		154,798	154,849
Cash		1,342,171	1,557,651
Total current assets		1,745,590	1,969,061
Total assets		47,807,882	48,726,409
Net assets attributable to the investors			
Contributions, net		\$ 18,701,218	\$ 18,701,218
Retained earnings		(724,312)	(206,403)
Translation from functional to reporting currency		8,599,784	9,034,634
Own credit risk reserve		894,384	1,016,185
Total net assets attributable to the investors		27,471,074	28,545,634
Liabilities			
Non-current liabilities			
Borrowings (Principal balance: 03/31/2019 - \$18,923,886; 12/31/2018 - \$19,509,581)	6 and 9	\$ 19,114,554	\$ 19,395,814
Derivative financial instruments		291,331	296,723
Tenant deposits		5,019	4,921
Accounts payable			
Total non-current liabilities		19,410,904	19,697,458
Current liabilities			
Borrowings (Principal balance: 03/31/2019 - \$535,850; 12/31/2018 - \$148,698)	6 and 9	535,850	148,698
Tenant deposits		92,802	100,016
Accounts payable		297,252	234,603
Total current liabilities		925,904	483,317
Total liabilities (excluding net assets attributable to the investors)		20,336,808	20,180,775
Total net assets attributable to the investors and liabilities		\$ 47,807,882	\$ 48,726,409

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 March 31, 2019	For the three months ended March 31, 2018
Rental revenues		\$ 926,186	\$ 895,287
Other operating income		109,850	101,736
Real estate operating expenses		(244,065)	(199,730)
Fees and other expenses		(107,113)	(90,545)
Realized gain (loss) from disposal of investment properties	6	58,599	(17,836)
Net unrealized gain (loss) from fair value adjustment on investment properties	6	(47,522)	(562,907)
Net unrealized gain (loss) from fair value adjustment on borrowings		(179,587)	(34,850)
Net unrealized gain (loss) from fair value adjustment on derivative financial instruments		(18,822)	29,563
Net realized gain (loss) from derivative financial instruments		3,449	-
Foreign exchange gain		13,616	49,868
Foreign exchange loss		(16,485)	(5,183)
Operating profit		498,106	165,403
Finance income		2,429	1,808
Finance cost		(249,591)	(254,240)
Finance cost - net		(247,162)	(252,432)
Share of profit from equity accounted investments	7	8,148	5,565
Profit for the period		\$ 259,092	\$ (81,464)
Other comprehensive income:			
<i>Items that can be reclassified subsequently to gain (loss) for the period</i>			
Translation gain (loss) from functional to reporting currency		(434,850)	(2,045,957)
<i>Items that can not be reclassified subsequently to gain (loss) for the period</i>			
Changes in the fair value adjustment on borrowings at fair value through other comprehensive income		(121,801)	187,489
Comprehensive income		(556,651)	(1,858,468)
Total comprehensive profit (loss) for the period		\$ (297,559)	\$ (1,939,932)
Earnings per CBFI			
Basic earnings per CBFI		\$ 3.28	\$ 1.34
Diluted earnings per CBFI		\$ 3.28	\$ 1.34

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 March 31, 2019 and March 31, 2018

(Expressed in thousands of Mexican Pesos)

(Unaudited)

	Note	Attributable to investors				
		Net contributions	Translation from functional to reporting currency	Own credit risk reserve	Retained earnings (losses)	Net assets
Restated balance at January 1, 2018		\$ 19,844,088	\$ 9,169,409	\$ 619,828	\$ (571,765)	\$ 29,061,560
Transactions with investors						
Distributions to the investors		(72,084)	-	-	(412,786)	(484,870)
Total transactions with investors		(72,084)	-	-	(412,786)	(484,870)
Comprehensive income						
Profit for the period	4	-	-	-	(81,464)	(81,464)
Other comprehensive income						
Translation from functional to reporting currency		-	(2,045,957)	-	-	(2,045,957)
Change from fair value adjustment on borrowings				187,489		187,489
Total comprehensive (loss) income		-	(2,045,957)	187,489	(81,464)	(1,939,932)
Net assets attributable to the investors at March 31, 2018		\$ 19,772,004	\$ 7,123,452	\$ 807,317	\$ (1,066,015)	\$ 26,636,758
Balance at January 1, 2019		\$ 18,701,218	\$ 9,034,634	\$ 1,016,185	\$ (206,403)	\$ 28,545,634
Transactions with investors						
Distributions to the investors	10	-	-	-	(777,001)	(777,001)
Total transactions with investors		-	-	-	(777,001)	(777,001)
Comprehensive income						
Profit for the period		-	-	-	259,092	259,092
Other comprehensive income						
Translation from functional to reporting currency		-	(434,850)	-	-	(434,850)
Change from fair value adjustment on borrowings		-	-	(121,801)	-	(121,801)
Total comprehensive income		-	(434,850)	(121,801)	259,092	(297,559)
Net assets attributable to the investors at March 31, 2019		\$ 18,701,218	\$ 8,599,784	\$ 894,384	\$ (724,312)	\$ 27,471,074

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
(Expressed in thousands of Mexican Pesos)
(Unaudited)

	Note	For the three months ended March 31, 2019	For the three months ended March 31, 2018
Cash flows from operating activities:			
Profit for the period		\$ 259,092	\$ (81,464)
Adjustments:			
Net unrealized gain (loss) from fair value adjustment on investment properties	6	47,522	562,907
Net unrealized gain (loss) from fair value adjustment on borrowings		179,587	34,850
Net unrealized gain (loss) from fair value adjustment on derivative financial instruments		18,822	(29,563)
Realized gain (loss) from disposal of investment properties	6	(58,599)	17,836
Bad debt expense		12,279	8,337
Interest accrued		241,813	218,733
Interest income on bank accounts		(1,918)	(1,292)
Share of profit from equity accounted investments	7	(8,148)	(5,565)
(Increase) decrease in:			
Deferred rents receivable		(22,626)	8,624
Accounts receivable		(12,228)	(126,011)
Recoverable taxes		17,555	(14,889)
Prepaid expenses		1,472	3,732
Other assets		(141,678)	(1,367)
Increase (decrease) in:			
Tenant deposits		(12,606)	(25,283)
Accounts payable		62,747	10,837
Net cash generated from operating activities		583,086	580,422
Cash flows from investing activities:			
Improvements of investment properties	6	(66,838)	(15,939)
Proceeds from dispositions of investment properties	6	189,015	-
Interest income on bank accounts		1,918	1,292
Investments in joint venture	7	8,531	(1,148)
Principal collections on loan receivable		320	294
Net cash used in investing activities		132,946	(15,501)
Cash flows from financing activities:			
Principal payments on borrowings		(2,900)	(876,902)
Interest expense		(136,320)	(131,870)
Restricted cash		565	(5,889)
Distributions to investors	10	(777,001)	(484,870)
Net cash (used in) generated from financing activities		(915,656)	(1,499,531)
Net (decrease) increase in cash		(199,624)	(934,610)
Cash at the beginning of the period		1,557,651	3,209,041
Exchange rate effects on cash		(15,856)	(238,728)
Cash at the end of the period		\$ 1,342,171	\$ 2,035,703

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

Notes to the condensed consolidated interim financial statements for the period ended March 31, 2019

(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 ("the Trustor") 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 ("the Common Representative") of the real estate trust certificate ("Certificados Bursátiles Fiduciarios Inmobiliarios" or "CBFI's") holders. The Trust agreement is for an indefinite term, an open-ended fund.

Terrafina is an industrial portfolio created mainly to acquire, 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, México City, 11570.

Terrafina is treated as a Real Estate Investment Trust (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" or "LISR") for tax purposes.

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 America, 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"), 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 Agreement 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, 2018, which were prepared in accordance with IFRS.

The Trust adopted IFRS 16 "Leases" that the IASB issued in January 2016 for the lease accounting, which was mandatory as of January 1, 2019, with no changes considering that the rule does not include significant changes to the accounting of lessors.

The enclosed condensed consolidated interim financial statements were authorized for issuance by the Terrafina Audit and Technical Committees on April 24, 2019.

(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, 2018.

FIBRA Terrafina

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 March 31, 2019

(Unaudited)

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

3. SIGNIFICANT TRANSACTIONS

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 4).

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 11, 2018, Terrafina announced to CBFI's repurchase program in accordance with the terms of the Trust agreement. Terrafina is authorized to repurchase up to five percent of its outstanding CBFI's for a period of twelve months. (See Note 9).

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 was effectively reimbursed during December 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 4).

On November 23, 2018, Terrafina signed the agreement for the total extinction of the trust: F/3229 executed with Banco Actinver, S. A., Institución de Banca Múltiple, Grupo Financiero Actinver (See Note 4).

On December 19, 2018, Terrafina signed the agreements for the total extinction of the trusts: F/2990, F/2992, F/2993, F/2994, F/2995 and F/2997 entered into with CI Banco, SA, Institución de Banca Múltiple (See Note 4).

During 2018, the Mexican tax authorities refunded VAT to the Trust for US\$29.7 million Dollars (\$610 million of Mexican Pesos).

4. RECLASIFICATIONS

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

The adoption of IFRS 9 resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statement.

The impact on retained earnings as of March 31, 2018 is as follows:

Retained earnings as of March 31, 2018	\$ 106,025
Own credit risk reserve	(187,489)
Retained earnings restated as of March 31, 2018	\$ (81,464)

FIBRA Terrafina

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 March 31, 2019

(Unaudited)

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

5 CONSOLIDATION BASIS

These condensed consolidated interim financial statements include net assets as of March 31, 2019 and December 31, 2018 and results of operations of the entities listed below controlled by Terrafina for the periods ended on March 31, 2019 and 2018. 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 could 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

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) (Extinguished on December 19, 2018)
- 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) (Extinguished on December 19, 2018)
- Trust F/2993 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307912) (Extinguished on December 19, 2018)
- Trust F/2994 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307920) (Extinguished on December 19, 2018)

FIBRA Terrafina

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 March 31, 2019

(Unaudited)

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

5. CONSOLIDATION BASIS (continued)

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

- Trust F/2995 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307947) (Extinguished on December 19, 2018)
- 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) (Extinguished on December 19, 2018)

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)
- Trust F/3229 (formerly HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, División Fiduciaria F/307823) (Extinguished on November 23, 2018)
- 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, to comply with the requirements of accounting standards and other business information purposes; other transactions of the entity are included in the consolidated financial statements. (See Note 10).

Investments in joint ventures are accounted for using the equity method. The carrying amount of the investment in joint ventures is increased or decreased to recognize the Trust's share of the profit or loss and other comprehensive income of the joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Trust. Unrealized gains and losses on transactions between the Trust and joint ventures are eliminated to the extent of the Trust's interest in those entities.

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

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Notes to the condensed consolidated interim financial statements for the period ended March 31, 2019

(Unaudited)

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

6. FAIR VALUE MEASUREMENTS

The 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 levels 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 vice president 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.

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.

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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 March 31, 2019

(Unaudited)

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

6. FAIR VALUE MEASUREMENTS (continued)

a. Investment Properties (continued)

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 March 31, 2019 and December 31, 2018, was 8.42% (ranges between 8.25% to 12%) for both periods.
- 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 years.
- 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 March 31, 2019 and December 31, 2018 was 5% and collection loss 1% for both years.

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 corporate vice president of valuations and the appraiser at least once every year.

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 March 31, 2019 and December 31, 2018, ranges between 3.10% y el 5.03% and 5.03% and 6.85%, respectively.

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

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

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6. FAIR VALUE MEASUREMENTS (continued)

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, credit spreads and other factors, such as the Trust's nonperformance risk as well as that of the Trust's counterparties. 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.

Table 1 next page summarizes assets and liabilities measured at fair value on a recurring basis and their respective level in the fair value hierarchy:

Table 1:

Fair Value Measurements at March 31, 2019

	Cost	Amounts measured at fair value	Level 1	Level 2	Level 3
<u>Assets:</u>					
Investment properties	\$ 44,651,571	\$ 45,060,870	\$ -	\$ -	\$ 45,060,870
Derivative financial instruments	-	32,313	-	32,313	-
Loan receivable	37,349	37,349	-	37,349	-
Total assets	\$ 44,688,920	\$ 45,130,532	\$ -	\$ 69,662	\$ 45,060,870
<u>Liabilities:</u>					
Borrowings	\$ 19,459,736	\$ 19,650,404	\$ -	\$ 19,650,404	\$ -
Total liabilities	\$ 19,459,736	\$ 19,650,404	\$ -	\$ 19,650,404	\$ -

Fair Value Measurements at December 31, 2018

	Cost	Amounts measured at fair value	Level 1	Level 2	Level 3
<u>Assets:</u>					
Investment properties	\$ 45,437,152	\$ 45,880,211	\$ -	\$ -	\$ 45,880,211
Derivative financial instruments	-	52,074	-	52,074	-
Loan receivable	38,262	38,262	-	38,262	-
Total assets	\$ 45,475,414	\$ 45,970,547	\$ -	\$ 90,336	\$ 45,880,211
<u>Liabilities:</u>					
Borrowings	\$ 19,658,279	\$ 19,544,512	\$ -	\$ 19,544,512	\$ -
Total liabilities	\$ 19,658,279	\$ 19,544,512	\$ -	\$ 19,544,512	\$ -

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6. FAIR VALUE MEASUREMENTS (continued)

Table 2 below shows 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 years ended March 31, 2019 and December 31, 2018.

Table 2

Fair value measurements using significant unobservable inputs (Level 3)

	Beginning balance 01/01/19	Realized and unrealized net gain (loss)	Currency translation	Acquisitions and capital expenditures	Dispositions	Ending balance 03/31/19	Unrealized gain (loss) for the period for investments still held at 03/31/19
<u>Assets:</u>							
Investment properties	\$45,880,211	\$ 11,077	\$ (708,241)	\$ 66,838	\$ (189,015)	\$ 45,060,870	\$ (47,522)
Total assets	\$45,880,211	\$ 11,077	\$ (708,241)	\$ 66,838	\$ (189,015)	\$ 45,060,870	\$ (47,522)

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 12/31/18	Unrealized gain (loss) for the period for investments still held at 12/31/18
<u>Assets:</u>							
Investment properties	\$45,959,558	\$ (703,592)	\$ (149,954)	\$ 833,416	\$ (59,217)	\$ 45,880,211	\$ (682,896)
Total assets	\$45,959,558	\$ (703,592)	\$ (149,954)	\$ 833,416	\$ (59,217)	\$ 45,880,211	\$ (682,896)

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7. INVESTMENTS UNDER THE EQUITY METHOD OF ACCOUNTING

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 March 31, 2019	Ownership interest as of December 31, 2018	March 31, 2019	December 31, 2018
Fideicomiso F/2717	Mexico / Lease of properties	50%	50%	\$454,972	\$461,824
Fideicomiso F/3485	Mexico / Lease of properties	50%	50%	\$ 85,043	\$ 85,884

Below shows the reconciliation of the ending balances at March 31, 2019 and December 31, 2018:

	March 31, 2019		December 31, 2018	
	Fid. 2717	Fid. 3485	Fid. 2717	Fid. 3485
Initial balance	\$ 461,824	\$ 85,884	\$ 382,056	\$ 51,706
Capital distributions	(7,929)	(602)	(14,323)	3,629
Share of profit from equity accounted investments	8,280	(132)	96,889	33,006
Currency translation	(7,203)	(107)	(2,798)	(2,457)
Ending balance	\$ 454,972	\$ 85,043	\$ 461,824	\$ 85,884

8. 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 8.

On July 16, 2018, the Trust acquired a 2-year interest rate CAP for a notional amount of US\$150 million, at a strike price of 2.75%.

Those outstanding contracts at March 31, 2019 and December 31, 2018, are summarized as follows:

March 31, 2019							
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%	\$ 31,365	May 18, 2017	October 4, 2021
Cap options	JP Morgan	150,000	3M LIBOR	2.750%	948	Jul 16, 2018	July15, 2020
Total					\$ 32,313		

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8. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

December 31, 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%	\$ 46,860	May 18, 2017	October 4, 2021
Cap options	JP Morgan	150,000	3M LIBOR	2.750%	5,214	Jul 16, 2018	July 15, 2020
Total					\$ 52,074		

9. BORROWINGS

Borrowings include mortgage loans payable as summarized below:

Credit entity/ Instrument	March 31, 2019		December 31, 2018		Interest rate (p.a.) [1], [2]	Maturity date	Terms [3]
	Principal balance	Fair value	Principal balance	Fair value			
BOND	\$ 8,404,624	\$ 8,595,292	\$ 8,427,105	\$ 8,313,338	Fixed - 5.25%	November, 2022	I
Banamex	6,832,994	6,832,994	6,939,954	6,939,954	3 months LIBOR + 2.45% [5]	October, 2022	I ^[7]
Metlife	2,906,895	2,906,895	2,952,435	2,952,435	Fixed - 4.75%	January, 2027	I ^[8]
Citibank ^[4]	1,019,429	1,019,429	1,035,387	1,035,387	3 months LIBOR + 2.45% [5]	August, 2023 ^[9]	I
SMNYL ^[6]	295,794	295,794	303,398	303,398	Fixed - 5.19%	February, 2020	P&I
Total borrowings	\$ 19,459,736	\$ 19,650,404	\$ 19,658,279	\$ 19,544,512			

[1] p.a. = per year.

[2] At March 31, 2019, and December 31, 2018, the 3 months LIBOR rate was de 2.5997% y 2.7970 % 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 March 31, 2019 and December 31, 2018, the Metlife and SMNYL debt are collateralized by Investment Properties with an aggregate estimated fair value of \$7,778,740 and \$7,852,690 Mexican Pesos, respectively.

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9. BORROWINGS (continued)

As of March 31, 2019 and December 31, 2018, fair value borrowings are payable as follows:

	<1 year		1 – 3 years		>3 years		Total
March 31, 2019	\$	535,850	\$	9,768,099	\$	9,346,455	\$ 19,650,404
December 31, 2018	\$	148,698	\$	637,801	\$	18,758,013	\$ 19,544,512

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.

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 consists of the initial contribution and the proceeds from the issued CBFI's.

As of March 31, 2019, the Trust had a contribution for \$21,324,824 and it consist of 790,602,803 of CBFI's in circulation as follows:

Number of CBFI's	Details	
791,014,635	As of December 31, 2017	21,334,894
(411,832)	CBFI's repurchase	(10,070)
<u>790,602,803</u>	<u>As of March 31, 2019</u>	<u>\$ 21,324,824</u>

On April 11, 2018, the Trust's Technical Committee approved a CBFI's repurchase program in accordance with the terms of the trust agreement and instructed the trustee to purchase the certificates exclusively, which will subsequently be canceled in the following twelve months. As of December 31, 2018, the repurchase of 411,832 CBFI's for an amount of \$ 10,070 (including transaction costs) has been carried out, which are holding in treasury.

On March 11 and 14, 2019, Terrafina paid dividends to the investors and a complementary distribution, which were previously approved by the Technical Committee for an amount of \$ 522,649 and \$254,352, respectively, both amounts were considered as tax distribution.

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11. RELATED PARTIES

The following detail, includes the outstanding Trust 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 March 31, 2019 and March 31, 2018 were \$845 and \$0, respectively.

Advisor

The payment of commission to the Advisor is equivalent to 0.5% per annum of the fair market value of real estate assets plus VAT.

The management fee accrued for the year ended March 31, 2019 and March 31, 2018 were \$55,926 and \$53,421, respectively.

12. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business there can be various legal actions related to properties of the Trust. At March 31, 2019, 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 April 24, 2019, the Technical Committee approved a dividend payment of \$465,292 corresponding to \$.5885 cents per CBFÍ's.