

FIBRA TERRAFINA

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

**Consolidated financial statements for the years ended
December 31, 2015 and 2014**

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FIBRA TERRAFINA

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries
Consolidated Statements of Financial Position
(Expressed in thousands of Mexican Pesos)

| | Note | December 31, 2015 | December 31, 2014 |
|---|-------------|----------------------|----------------------|
| Assets | | | |
| Non-current assets | | | |
| Investment properties | 8 and 17 | \$ 28,678,732 | \$ 24,298,809 |
| (Cost: 12/31/2015 - \$27,727,490; 12/31/2014 - \$23,843,700) | | | |
| Derivative financial instruments | 8 and 13 | 15 | 454 |
| Current assets | | | |
| Other assets | 10 | 92,760 | 53,862 |
| Recoverable taxes | 11 | 329,704 | 115,683 |
| Prepaid expenses | | 9,912 | 8,858 |
| Acquisition prepayment | | 4,177 | - |
| Deferred rents receivable | | 111,894 | 98,643 |
| Accounts receivable | 14 | 66,472 | 41,056 |
| (Net of allowance for doubtful accounts: 12/31/2015 - \$107,294; 12/31/2014 - \$61,871) | | | |
| Restricted cash | | 58,043 | 53,261 |
| Cash and cash equivalents | 9 | 4,467,863 | 5,002,554 |
| Total assets | | 33,819,572 | 29,673,180 |
| Net assets | | | |
| Net assets attributable to member's controlling interest | | | |
| Contributions, net | 16 | \$ 15,227,911 | \$ 15,681,752 |
| Accumulated profit | | 201,212 | - |
| Currency translation adjustment | | 5,518,444 | 2,500,872 |
| Net assets attributable to member's controlling interest | | 20,947,567 | 18,182,624 |
| Non-controlling interest | 16 | 101,949 | - |
| Total net assets | | 21,049,516 | 18,182,624 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 6, 8 and 15 | \$ 11,783,091 | \$ 10,974,936 |
| (Principal balance: 12/31/2015 - \$11,965,910; 12/31/2014 - \$11,086,558) | | | |
| Tenant deposits | 6 | 139,562 | 111,222 |
| Accounts payable | 6 and 12 | 31,654 | 2,824 |
| Current liabilities | | | |
| Accounts payable | 6 and 12 | 323,483 | 350,920 |
| Borrowings | 6, 8 and 15 | 432,536 | - |
| (Principal balance: 12/31/2015 - \$432,536; 12/31/2014 - \$0) | | | |
| Tenant deposits | 6 | 59,730 | 50,654 |
| Total liabilities (excluding net assets) | | 12,770,056 | 11,490,556 |
| Total net assets and liabilities | | \$ 33,819,572 | \$ 29,673,180 |

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

FIBRA TERRAFINA

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries
Consolidated Statements of Comprehensive Income
(Expressed in thousands of Mexican Pesos)

| | Note | For the twelve months ended December 31, 2015 | For the twelve months ended December 31, 2014 |
|---|------|--|--|
| Rental revenues | 17 | \$ 2,030,608 | \$ 1,784,262 |
| Other operating income | 18 | 166,616 | 199,725 |
| Real estate operating expenses | 19 | (477,596) | (451,479) |
| Fees and other expenses | 20 | (438,225) | (241,682) |
| Realized (loss) gain from disposal of investment properties | 8 | (272) | 703 |
| Net gain (loss) unrealized from fair value adjustment on borrowings | 8 | 66,406 | (44,343) |
| Net gain unrealized from fair value adjustment on investment properties | 8 | 162,035 | 205,921 |
| Net loss unrealized from fair value adjustment on derivative financial instruments | | (463) | (39,973) |
| Net gain in unrealized from fair value adjustment on bank investments | | 19,478 | - |
| Foreign exchange loss | | (217,336) | (499,062) |
| Operating profit (loss) | | 1,311,251 | 914,072 |
| Finance income | 21 | 32,725 | 32,061 |
| Finance cost | 21 | (605,951) | (458,617) |
| Finance cost - net | | (573,226) | (426,556) |
| Profit (loss) for the period | | \$ 738,025 | \$ 487,516 |
| Items that may be subsequently reclassified to profit or loss- currency translation differences | | 3,017,572 | 1,989,016 |
| Total comprehensive profit for the period | | \$ 3,755,597 | \$ 2,476,532 |
| Profit (loss) for the period attributable to: | | | |
| Member's controlling interest | | 738,025 | 487,516 |
| Non-controlling interest | | - | - |
| Profit (loss) for the period | | \$ 738,025 | \$ 487,516 |

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

FIBRA TERRAFINA

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries
Consolidated Statements of Changes in Net Assets
For the years ended December 31, 2015 and December 31, 2014
(Expressed in thousands of Mexican Pesos)

| | Note | Attributable to member's controlling interest | | | Net assets attributable to member's controlling interest | Non- controlling interest | Net assets |
|--|------|---|---------------------------------|----------------------------|--|---------------------------|----------------------|
| | | Net contributions | Currency translation adjustment | Retained (losses) earnings | | | |
| Balance at January 1, 2014 | | \$ 9,900,604 | \$ 511,856 | \$ 246,413 | \$ 10,658,873 | \$ - | \$ 10,658,873 |
| Capital contribution, net of issuing costs | 16 | 5,891,767 | - | - | 5,891,767 | - | 5,891,767 |
| Distributions to the investors | 16 | (110,619) | - | (733,929) | (844,548) | - | (844,548) |
| Comprehensive income | | | | | | | |
| Profit for the period | | - | - | 487,516 | 487,516 | - | 487,516 |
| Other comprehensive income | | | | | | | |
| Currency translation | | - | 1,989,016 | - | 1,989,016 | - | 1,989,016 |
| Total comprehensive income | | - | 1,989,016 | 487,516 | 2,476,532 | - | 2,476,532 |
| Net Assets at December 31, 2014 | | \$ 15,681,752 | \$ 2,500,872 | \$ - | \$ 18,182,624 | - | \$ 18,182,624 |
| Capital contribution | 16 | 147,461 | - | - | 147,461 | 101,949 | 249,410 |
| Distributions to the investors | 16 | (601,302) | - | (536,813) | (1,138,115) | - | (1,138,115) |
| Comprehensive income | | | | | | | |
| Profit for the period | | - | - | 738,025 | 738,025 | - | 738,025 |
| Other comprehensive income | | | | | | | |
| Currency translation | | - | 3,017,572 | - | 3,017,572 | - | 3,017,572 |
| Total comprehensive income | | - | 3,017,572 | 738,025 | 3,755,597 | - | 3,755,597 |
| Net Assets at December 31, 2015 | | \$ 15,227,911 | \$ 5,518,444 | \$ 201,212 | \$ 20,947,567 | \$ 101,949 | \$ 21,049,516 |

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

FIBRA TERRAFINA

CI Banco, S.A. Institución de Banca Múltiple, Trust F/00939 and subsidiaries
Consolidated Statements of Cash Flows
(Expressed in thousands of Mexican Pesos)

| | Note | For the twelve months ended December 31, 2015 | For the twelve months ended December 31, 2014 |
|--|----------|--|--|
| Cash flows from operating activities | | | |
| Profit for the period | | \$ 738,025 | \$ 487,516 |
| Adjustments: | | | |
| Net gain unrealized from fair value adjustment on investment properties | 8 | (162,035) | (205,921) |
| Net loss unrealized from fair value adjustment on derivative financial instruments | | 1,019 | 39,973 |
| Net (gain) loss unrealized from fair value adjustment on borrowings | 8 | (66,406) | 44,343 |
| Realized loss (gain) from disposal of investment properties | 8 | 272 | (703) |
| Bad debt expense | | 48,693 | 38,701 |
| Interest expense | 21 | 436,604 | 447,054 |
| Interest income on bank accounts | 21 | (32,725) | (32,061) |
| Increase deferred rents receivable | | (13,251) | (57,361) |
| Increase (decrease) in restricted cash | | (4,782) | 3,674 |
| Increase in accounts receivable | | (74,109) | (679) |
| (Increase) decrease in recoverable taxes | | (214,021) | 910,265 |
| Increase in prepaid expenses | | (1,054) | (449) |
| (Increase) decrease in other assets | | (38,898) | 23,417 |
| Increase in tenant deposits | | 37,416 | 13,890 |
| Increase (decrease) in accounts payable | | 1,393 | (55,793) |
| Net cash generated from operating activities | | 656,141 | 1,655,866 |
| Cash flows generated from investing activities: | | | |
| Acquisition of investment properties | 8 | (1,424,316) | (8,101) |
| Improvements of investment properties | 8 | (391,821) | (240,839) |
| Proceeds from dispositions of investment properties | 8 | 1,552,237 | 11,011 |
| Acquisition prepayment | | (4,177) | - |
| Interest income on bank accounts | 21 | 32,725 | 32,061 |
| Net cash used in investing activities | | (235,352) | (205,868) |
| Cash flows from financing activities: | | | |
| Acquisition of derivative financial instruments | | (556) | (275) |
| Proceeds from borrowings | 8 | 13,216,832 | - |
| Principal payments on borrowings | 8 and 15 | (13,590,114) | (2,467,263) |
| Interest expense | 21 | (436,604) | (447,054) |
| Contribution of non-controlling interest | 16 | 101,949 | - |
| Distributions to investors | 16 | (1,138,115) | (844,548) |
| Proceeds from CBF1, net of issuing cost | 16 | 147,461 | 5,891,767 |
| Net cash (used in) generated from financing activities | | (1,699,147) | 2,132,627 |
| Net (decrease) increase in cash and cash equivalents | | (1,278,358) | 3,582,625 |
| Cash and cash equivalents at the beginning of the period | | 5,002,554 | 728,550 |
| Exchange rate effects on cash and cash equivalents | | 743,667 | 691,379 |
| Cash and cash equivalents at the end of the period | | \$ 4,467,863 | \$ 5,002,554 |

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

Fibra Terrafina

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

Notes to the Consolidated Financial Statements for the years ended December 31, 2015 and 2014

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

1. GENERAL INFORMATION

Terrafina (“Terrafina” or the “Trust”) is a Mexican trust created pursuant to Trust Agreement F/00939 dated on 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 The Bank of New York Mellon, S.A., Institución de Banca Múltiple, which was acquired by 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 certificates “CBFI” holders.

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 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 Income Tax Law “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 PREI Latin 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”), in order for the latter to carry out certain management services on behalf of the Trust.

On September 18, 2014, Terrafina carried out its second public placement of 221,472,434 CBFI which includes an over-allotment option, through a Global Offering as follows:

- (a) An international offering of 96,292,363 CBFI.
- (b) A simultaneous offering in Mexico of 96,292,363 CBFI.
- (c) Over-allotment option of 28,887,708 CBFI.

For further details on the public placement, refer to note 16.

2. BASIS OF PREPARATION

The enclosed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Financial Reporting Standards Interpretation Committee (“IFRIC”) and the Standard Interpretation Committee (“SIC”), applicable at December 31, 2015.

The consolidated financial statements have been prepared on an historical cost basis, except for the revaluation of investment properties, borrowings, financial instruments and derivatives, which have been measured at fair value.

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

Notes to the Consolidated Financial Statements for the years ended December 31, 2015 and 2014

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

2. BASIS OF PREPARATION (continued)

Preparation of consolidated 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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant for the consolidated financial statements are disclosed in Note 7.

The enclosed consolidated financial statements were authorized for their issuance by the Terrafina audit and technical committees on February 17, 2016.

(a) New and amended standards adopted by the Trust.

There are no new standards, interpretation or amendments to existing standards, effective for the annual period began on January 1, 2015, which could have a material impact on the Trust.

(b) New standards, amendments and interpretations effective after December 31, 2015 that have not been adopted.

A number of new accounting or amended standards and interpretations have been published that are not effective yet as of December 31, 2015, and have not been early adopted by the Trust. None of these standards are expected to have a material impact on the Trust's Financial Statements. The Trust's assessment of the impact of these new standards and interpretations is set out below:

IFRS 9 Financial Instruments: Addresses the classification, measurement and de-recognition of financial assets and liabilities and introduces new rules for hedge accounting. In July, 2014, the International Accounting Standard Board ("IASB") made further changes to the classification and measurement rules and also introduced a new impairment model, these latest amendments now complete the new financial instruments standard. Following the changes approved by the IASB in July 2014, the Trust no longer expects any impact from the new classification, measurement and de-recognition rules on the Trust's financial assets and liabilities.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Trust.

3. SIGNIFICANT TRANSACTIONS

On November 12, 2015, Terrafina acquired a portfolio of 10 industrial properties, for US \$59.4 million (\$996 million of Mexican pesos). Terrafina entered into credit facility with Metlife of US\$22 million (\$376 million of Mexican pesos) as a result of this acquisition. Additionally on December 3, 2015, Terrafina acquired 2 industrial properties, for US \$11.6 million (\$192 million of Mexican pesos). Also, the rights to the existing leases were also acquired. This transaction generated a recoverable VAT, which will be requested for reimbursement during the first quarter of 2016.

On November 10, 2015, Terrafina completed the issuance of a 7-year senior unsecured note ("Senior Notes") placement in the international markets for US \$425 million (\$7,125 million of Mexican pesos). The bond is due on November 10, 2022 with a 5.25% coupon. Some of the cash generated in this transaction was used to pay down debt.

On August 25, 2015, Terrafina replaced its secured revolving credit with a new US \$375 million unsecured revolving credit facility.

On June 16, 2015, Terrafina entered into a joint venture agreement with Controladora Idea, S.A. de C.V. (Controladora) and Parques American Industries, S.A. de C.V. (PAI), with an equity interest of 50% for each of the parties involved. The initial contribution was on December 16, 2015 for US \$5.8 million (\$101,949 Mexican pesos).

On March 24, 2015, Terrafina completed a Portfolio Sale of land reserves and industrial space for US \$101 million (\$1,552 million of Mexican pesos). The cash obtained in this transaction was used to pay debt.

On March 20, 2015, as per the provisions of the Trust's advisory agreement, Terrafina exercised 4,723,291 real estate trust certificates ("CBFI") for the payment of performance fee to the Advisor.

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

Notes to the Consolidated Financial Statements for the years ended December 31, 2015 and 2014

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

4. RECLASIFICATIONS

Certain amounts on the financial statements of prior periods have been reclassified according with current year's presentation. Such reclassifications had not effect over the priory issued financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparing these consolidated financial statements are set out below, these policies have been consistently applied to all the years presented:

A. CONSOLIDATION BASIS

These consolidated financial statements include net assets and results of operations of the entities listed below controlled by Terrafina for the years ended December 31, 2015 and 2014. All significant intercompany balances and transactions have been eliminated from the consolidated 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/307823
- Trust F/307831
- Trust F/307840
- Trust F/307858
- Trust F/307866
- Trust F/307874
- Trust F/307882
- Trust F/307890
- Trust F/307904
- Trust F/307912
- Trust F/307920
- Trust F/307939
- Trust F/307947
- Trust F/307955
- Trust F/307963
- Trust F/307971
- Trust F/307980
- Trust F/308030
- Trust F/308048
- Trust F/308293
- Trust F/308285

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
- Trust F/251

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Notes to the Consolidated Financial Statements for the years ended December 31, 2015 and 2014

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. CONSOLIDATION BASIS (continued)

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

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

- Trust F/2717

TF Administradora, S. de R.L. de C.V.

B. INVESTMENTS IN JOINT VENTURES

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 Fund'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 Fund. Unrealized gains and losses on transactions between the Fund and joint ventures are eliminated to the extent of the Fund's interest in those entities.

C. FOREIGN CURRENCY TRANSLATION

a. Functional and reporting currency

Items included in these consolidated financial statements are measured using the US Dollar ("Dollar" or "USD") which is the functional currency for the Trust and converted into Mexican Pesos ("Pesos" or "MXN"), which is the reporting currency of the Trust for the purpose of this report. This functional currency is applicable for all the project trusts.

b. Transactions and balances

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency denominated assets and liabilities are converted into the functional currency using the exchange rate prevailing at the date of the consolidated statement of financial position. Foreign exchange gains and losses arising from conversion are included in the consolidated statements of comprehensive income.

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

Notes to the Consolidated Financial Statements for the years ended December 31, 2015 and 2014

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FOREIGN CURRENCY TRANSLATION (continued)

c. Translation

The conversion of the Trust's consolidated financial statements as of December 31, 2015 and 2014 was done as follows:

- (i) All assets and liabilities were converted at the closing rate at the date of the consolidated financial position;
- (ii) Net assets components were converted at the historical rate;
- (iii) Income and expenses of the consolidated statement of comprehensive income are converted at monthly average exchange rates (corresponding to the days in which operations were carried out, unless that average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the transaction dates.); and
- (iv) All exchange differences resulting from net assets conversion to their historical amounts are recognized in other comprehensive income.

The exchange rates used for preparation of these consolidated financial statements were as follows:

| Reporting period | Year-end rate | Average rate (*) |
|----------------------------------|----------------|------------------|
| December 31, 2015 USD/MXN | 17.2065 | 15.8606 |
| December 31, 2014 USD/MXN | 14.7180 | 13.2899 |

(*) For the year ended December 31, 2015 and 2014.

D. LEASES

All leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases (Note 5M). Lease income from operating leases where the Fund is a lessor is recognized in income on a straight-line basis over the lease term.

Properties leased under operating leases are included in investment properties in the consolidated statement of financial position (Note 8).

The Trust makes payments to agents for services related to negotiations for lease contracts with the lessees. The initial leasing fee is capitalized under the carrying amount of the related investment properties, the subsequent leasing fees are entered as expenses.

E. INVESTMENT PROPERTIES

Investment properties held for long-term rental yields or for capital appreciation or both, that are not used by the owners, are classified as investment properties. Investment properties comprise of freehold land, freehold industrial buildings, and properties under construction or development for future use as investment properties. Investment properties are measured initially at acquisition cost, including related transaction costs. After initial recognition, the investment properties are measured at fair value.

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Notes to the Consolidated Financial Statements for the years ended December 31, 2015 and 2014

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. INVESTMENT PROPERTIES (continued)

The Advisor determines the fair value of investment properties based on appraisal reports prepared by third party independent real estate appraisers. The purpose of an appraisal is to estimate the fair value of a property as of a specific date. Fair value estimates require the exercise of judgment.

The fair value of investment properties are subject to numerous and various assumptions and limitations as of the valuation date. Many different individual assumptions may be supportable and reasonable, and the interplay and compounding of different assumptions, or the use of different accepted methodologies, may produce very different estimates of value for the same property.

The fair value of investment properties is estimates of value and not a measure of realizable value. In addition, such valuations may be viewed as subject to change with the passing of time.

Fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. Fair value also reflects, on a similar basis, any cash outflows that could be expected in relation to the property.

Fair value measurement of property under construction is only applied if the fair value can be reliably measured. It may sometimes be difficult to reliably determine the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be reliably determined, management considers the following factors, among others:

- The provisions of the construction contract.
- The percentage of completion.
- Whether the project/property is standard (typical for the market) or non-standard.
- The level of reliability of cash inflows after completion.
- The development risk specific to the property.
- Past experience with similar constructions.
- The status of construction permits.

Subsequent expenditure is added to the investment property's carrying amount only when it is probable that future financial benefits associated with the item will flow to the Trust and the cost of the item can be measured in a reliable manner. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Changes in fair value are recorded as unrealized gains (losses) in the consolidated statement of comprehensive income.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future financial benefit is expected from its disposal.

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Notes to the Consolidated Financial Statements for the years ended December 31, 2015 and 2014

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in banks with initial maturity of less than three months, as well as investment in repurchase agreement. Interest income on short term deposits is recognized as it accrues.

G. RESTRICTED CASH

Restricted cash represents funds held in security trusts for payment of maintenance, interest and principal related to borrowings.

Reserves included in restricted cash are required by the lenders under loan documents, in order to cover interest payments in the event of default and for specific purposes such as tenant improvements or capital expenditures.

H. FINANCIAL ASSETS

Financial assets include other assets, prepaid expenses and accounts receivable that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except when their maturities are greater than 12 months after the financial statement date, in which case they are classified as non-current assets.

Receivables are recognized initially at fair value and later are measured at their amortized cost, using the effective interest method, less allowance for doubtful accounts. The Trust assess at the end of each reporting period whether there is objective evidence that receivables are doubtful of collection and those provisions for doubtful accounts are recognized in operating profit (loss). An estimate of the amount of uncollectible receivables is made when it is no longer likely that a receivable will be collected in full based on objective evidence. Unrecoverable receivables are recognized as a loss immediately upon being identified as such.

The prepaid expenses include mainly prepaid insurance of investment properties which are charged to expense over the term of service.

I. BORROWINGS

All borrowings are recorded at fair value, which reflects changes in interest rates, redemption premiums or discounts and maturity.

Borrowings are classified as current liabilities unless the Trust has an unconditional right to defer settlement of the liability for at least 12 months after the period closing.

Given that the Trust manages and evaluates performance on a fair value basis in accordance with the investment strategy (Investment Properties), using a fair value option to measure borrowings is consistent with the Trust's risk management and investment strategy.

J. BORROWING COSTS

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

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Notes to the Consolidated Financial Statements for the years ended December 31, 2015 and 2014

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. PROVISIONS

Provisions recognized in the consolidated statement of financial position represent current liabilities for which economic resources are likely to be required to settle the obligation. Those provisions have been recorded based on management's best reasonable estimate to pay current liabilities; however, actual results could differ from recognized provisions.

L. TENANT DEPOSITS

Tenant deposits are recognized as they are received from tenants and they represent the liability of the Trusts to return to tenants at the end of the lease term, under certain circumstances established in the respective agreements.

M. REVENUE RECOGNITION

Revenue includes rental income, service charges and property management charges. The rental income from operating leases is recognized on a straight-line basis over the lease term. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. When the Trust offers incentives to tenants (grace months), the cost of these is amortized over the lease term, on a straight-line basis, as a reduction or increase of rental income. These incentives are presented in the deferred rents receivable in the consolidated statement of financial position.

Service and management charges are recognized in the accounting period in which services are rendered. This other income primarily includes the maintenance cost recoveries, water supply, electrical energy, property taxes and insurance premiums that are billed to tenants.

N. RESULT BY CBFI

The earnings per CBFI are computed by dividing the Trust's profit attributable to the CBFI holders by the weighted average number of outstanding CBFI during the financial period.

O. DERIVATIVE FINANCIAL INSTRUMENTS

The Trust enters into interest rate caps ("Caps and Fixed Rate Options") transactions with unrelated major financial institutions.

The Trust uses interest rate caps and fixed rate options in order to minimize the effect of interest rate fluctuations or interest rate risk of certain investment properties' interest expense on variable rate loans. Such derivative financial instruments are initially recognized at historical cost, which is the fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are accounted for as assets when fair value is positive and as liabilities when the fair value is negative.

The Trust carries fair values of interest rate caps and fixed rate options under "Derivative Financial Instruments" in the consolidated statement of financial position. The resulting unrealized gain (loss) is included in the consolidated statement of comprehensive income under "Net unrealized gain (loss) from fair value adjustment on derivative financial instruments".

P. FEES AND OTHER EXPENSES

Fees and other expenses include legal, accounting, auditing and other professional fees. They are recognized in the consolidated statement of comprehensive income in the period in which they are incurred (on an accruals basis).

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. TAXATION

Terrafina is taxed as a Real Estate Investment Trust (also known as a Mexican “FIBRA”), in accordance with Articles 187 and 188 of the Mexican Income Tax Law (LISR for Mexican tax purposes).

The Trust's intention is to operate in a manner enabling it to maintain its tax status as a Real Estate Investment Trust. As a result, the Trust will not be subject to income taxation to the extent that it distributes taxable income to its shareholders and complies with certain other requirements. The Trust plans to continue to operate so that it meets the requirements for taxation as a Real Estate Investment Trust. No provision has been made for income taxes in the accompanying financial statements.

R. NET ASSETS

CBFI's are classified as net assets and are recognized at the fair value of the proceeds received by Terrafina. Placement transaction costs arising from the issuance of CBFI attributable to investors are recognized in net assets as a reduction in the proceeds from CBFI's related to such costs.

All cash distributions will be made at the sole discretion of the Technical Committee based on the results of the Trust's transactions, the economic position of the Trust and other factors considered as relevant by the Technical Committee.

6. FINANCIAL RISK MANAGEMENT

The Trust's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow risk and interest rate risk), credit risk, liquidity risk, financial risk, fair value estimation and net assets management risk. There are no changes to the risk management policies since the year ended.

a. Market risk

Foreign exchange risk

The Trust is exposed to foreign exchange risk arising from currency exposures in its operations, primarily with respect to investment properties, leasing agreements and borrowings, which are mostly denominated in US Dollars. Foreign exchange risk also arises from services provided by foreign suppliers.

The Trust has not contracted hedging instruments to offset the effect of currency rate changes, mainly because its investments and revenue are denominated in US Dollars.

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6. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

Foreign exchange risk (continued)

The effect on net assets resulting from converting US Dollar denominated assets and liabilities to Mexican Pesos for the periods ended December 31, 2015 and December 31, 2014 was as follows:

| | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|---|--------------------------|--------------------------|
| Currency translation effect on net assets | \$ 5,518,444 | \$ 2,500,872 |

A sensitivity analysis prepared by management illustrates how changes in the currency rates affect the net assets in Mexican Pesos at December 31, 2015 and December 31, 2014, as a result of the conversion of functional currency to presentation currency shown as follow:

| <u>Sensitivity analysis</u> | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|--------------------------------|--------------------------|--------------------------|
| Exchange rate | 17.2065 | 14.7180 |
| Weakening 10% (+) | 18.9272 | 16.1898 |
| Strengthening 10% (-) | 15.4859 | 13.2462 |
| Net assets | \$ 21,049,516 | \$ 18,182,624 |
| Adjusted Net Assets (weakness) | 23,154,468 | 20,000,886 |
| Adjusted Net Assets (strength) | 18,944,564 | 16,364,362 |

Price risk

The Trust is exposed to property price and market rental risks. The Trust uses local knowledge and experience plus local property managers to minimize those risks.

The future rental income was estimated depending on the location, type and quality of the properties, and taking into account market data and projections at the valuation date. If the market rentals used in the discounted cash flow analysis were to increase or decrease by 10%, the carrying amount of investment properties would be an estimated \$20 million lower or \$20 million higher, respectively.

If the cap rates used in the Capitalization Rate analysis were to increase or decrease by 10%, the carrying amount of investment properties would be an estimated \$120 million lower or \$150 million higher, respectively.

Cash flow and fair value interest rate risk

As the Trust has no significant interest-bearing assets, its income and operating cash flows are substantially independent from changes in market interest rates except for items related to its borrowings. Borrowings issued at variable rates expose the Trust to fair value interest rate risk. As of December 31, 2015, 62.1% of the borrowings are set at fixed rate and the rest at variable rate. As of December 31, 2014, all borrowings were set at variable rates and in US dollars. In order to hedge such risk, the Trust has acquired derivative financial instruments.

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6. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk

The Trust has no significant concentrations of credit risk. Policies have been implemented to ensure that rental agreements are made with customers with an appropriate credit history. To reduce such risk, the Trust has security deposits and bonds. Cash transactions are limited to high-credit-quality financial institutions. The Trust aims at limiting the amount of credit exposure to any financial institution. Additionally, the Trust mitigates credit risk by extending lease contracts to tenants with quality credit ratings.

c. Liquidity risk

Liquidity risk is managed by maintaining sufficient cash and cash equivalents, availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

In the normal course of business, the Trust enters into loan agreements with certain lenders to finance its real estate investment transactions. Unfavorable economic conditions could increase borrowing-related costs, limit access to the capital markets or result in a decision by lenders to not extend credit to the Trust. There is no guarantee that the Trust's loan arrangements or ability to obtain leverage will continue to be available, or if available, will be available on terms and conditions acceptable to the Trust. Further, those loan agreements include, among other conditions, events of default and various covenants and representations. As of December 31, 2015 and December 31, 2014, the Trust had no past due/callable loans.

A decline in market value of the Trust's assets may also have particular adverse consequences in instances where the Trust borrowed money based on the fair value of specific assets. A decrease in fair value of such assets may result in the lender requiring the Trust to post additional securities or otherwise repay the loans.

In the event the Trust's current portfolio and investment obligations are not refinanced or extended when they become due and/or the Trust is required to repay such borrowings and obligations, management anticipates that operating cash flow, investor's contributions, new debt refinancing, and real estate investment sales will provide the repayment of these obligations. If the Trust is required to sell investments quickly in order to meet such obligations and commitments, the Trust may realize a value considerably lower than the value at which it previously recorded those investments.

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6. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

The following table shows the analysis of liabilities, presented for the periods between the date of the consolidated statement of financial position their maturity date. Amounts shown in the table correspond to non-discounted cash flows, including interest.

| December 31, 2015 | | | | | |
|-------------------|-------------------|-------------------|-------------------|----------------------|----------------------|
| | 3 months | 1 year | 1-2 years | 2-7 years | Total |
| Borrowings | \$ - | \$ 432,536 | \$ 189,752 | \$ 11,593,339 | \$ 12,215,627 |
| Tenant Deposits | 23,851 | 35,879 | 20,613 | 118,949 | 199,292 |
| Accounts payable | 265,431 | 58,052 | 740 | 30,914 | 355,137 |
| Total | \$ 289,282 | \$ 526,467 | \$ 211,105 | \$ 11,743,202 | \$ 12,770,056 |

| December 31, 2014 | | | | | |
|-------------------|-------------------|------------------|---------------------|---------------------|----------------------|
| | 3 months | 1 year | 1-2 years | 2-7 years | Total |
| Borrowings | \$ - | \$ - | \$ 6,584,924 | \$ 4,390,012 | \$ 10,974,936 |
| Tenant Deposits | 13,580 | 37,074 | 17,659 | 93,563 | 161,876 |
| Accounts payable | 312,407 | 38,513 | - | 2,824 | 353,744 |
| Total | \$ 325,987 | \$ 75,587 | \$ 6,602,583 | \$ 4,486,399 | \$ 11,490,556 |

d. Net assets risk management

The Trust defines the contributions that it manages as the Trust's total net assets. The Trust's objectives when managing net assets are:

- Safeguarding the Trust's ability to continue as a going concern, so that it can continue carrying out multiple investments in exchange for returns from capital appreciation, investment income (such as dividends or interest), or both.
- Providing an adequate return to investors based on the level of undertaken risk.
- Ensuring the necessary financial resources to allow the Trust to invest in areas that may deliver future benefits.
- Maintaining sufficient financial resources to mitigate risks and unforeseen events.

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7. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Management prepares estimates and assumptions based on historical experience adjusted for current market conditions and other factors. Actual results could differ from those estimates and assumptions.

Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar investment properties. Management determines the fair value of investment properties based on appraisal reports prepared by independent third party real estate appraisers in accordance with international valuation standards on the basis of comparable prices in the local market or of discounted net cash inflows to present value using a discounted cash flow method. Valuations are made on the basis of estimated future cash flows supported by the term of existing leases or other contracts and current market leases of similar properties in similar locations and conditions, related property operating expenses and discount rates that reflect market assessments on the uncertainty in the amount and timing of cash flows. (See Note 8 for further details on assumptions).

Fair value of the investments in securities and other cash equivalents

Best evidence of fair value of investments in securities and other cash equivalents are the current transaction prices in an active market for the diverse titles that integrate the Trust investments portfolio, based on the current market conditions at the end of the reported period.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. Management determines the fair value of derivatives and other financial instruments based on valuations prepared by a third party. (See note 8 for further details on assumptions).

Fair value of borrowings

The fair value of borrowings is determined by using valuation techniques. Management uses their judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Management has been using generally accepted valuation method. (See note 8 for further details on assumptions).

8. 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.

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8. FAIR VALUE MEASUREMENTS (continued)

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.

For items classified as Level 3, a reconciliation of the beginning and ending balances, as shown in table 2 below, is also required.

a. Investment Properties

In general terms, the fair value estimations are based on property appraisal reports prepared by independent real estate appraisers (members of the National Appraisal Institute or an equivalent organization) within a reasonable amount of time following the acquisition of real estate and no less frequently than annually thereafter. The Chief Real Estate Appraiser of PGIM Inc. formerly known as Prudential Investment Management, 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 based on conventional valuation approaches, all of which require the exercise of subjective judgment. The three approaches are: (1) current cost of replacement of the real estate less impairment and functional and economic obsolescence; (2) discounting of a series of income cash flows and their reversion at a specific yield or by directly capitalizing a single year's income by an appropriate factor; and (3) the value shown for recent sales of comparable real estate on the market. Key assumptions include rental income and expense amounts, discount rates and capitalization rates. In reconciling those three approaches, an independent appraiser uses one or a combination of these approaches to arrive at the approximate value of investment properties in the market.

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 net assets benefits in an opinion of net present value. The discount rate as of December 31, 2015 and 2014, ranges between 9% and 12% for both years.
- 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.

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8. FAIR VALUE MEASUREMENTS (continued)

a. Investment Properties (continued)

Significant increases (decreases) in the unobservable input 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 (loss) gain from fair value adjustment on investment properties is included in the consolidated statements of comprehensive income.

b. Borrowings

Valuation process for Trust borrowings:

The valuations for financial reporting purposes, including Level 3 fair values are prepared by an independent third party. Discussions of valuation processes and results are held between the Director of capital markets and the appraiser at least once every year.

The significant Level 3 inputs used by the Trust are derived and evaluated as follows:

- Discount rates: These rates are estimated based on the costs of loans that are comparable and available at public information sources or other sources available for the Trust. Discount rate as of December 31, 2015 and 2014, ranges between 4.34% and 6.65% and 4.00% and 8.00%, respectively.
- Management has estimated fair values based on historical data and on its experience, which is in line with internal credit policies. The unobservable inputs used in the fair value measurement of borrowings are the discount rates, for which a significant increase (decrease) would result in a significantly lower (higher) fair value measurement.

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 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 (OTC) market and are classified within Level 2 in the fair value hierarchy.

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8. FAIR VALUE MEASUREMENTS (continued)

d. Investments in securities and other cash equivalents

The Trust records the investments in securities and other cash equivalents at fair value, which is determined by using the valuation of the investment instruments that comprise the Trust portfolio at the end of the reported period. The portfolio securities funds titles and the debt instruments are negotiated into the active stock market and are valued by using models generally accepted in the financial services industry that include information that uses actively quoted or observable market input values from external market data providers, non-binding broker-dealer quotations, third-party pricing vendors and/or recent trading activity.

Table 1 below 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 December 31, 2015

| | Cost at 12/31/2015 | Amounts measured at fair value 12/31/2015 | Quoted prices in active markets for identical net assets (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|-----------------------|--|--|--|--|
| <u>Assets:</u> | | | | | |
| Investment properties | \$ 27,727,490 | \$ 28,678,732 | \$ - | \$ - | \$ 28,678,732 |
| Interest rate Caps & Fixed rate options | - | 15 | - | 15 | - |
| Total assets | \$ 27,727,490 | \$ 28,678,747 | \$ - | \$ 15 | \$ 28,678,732 |
| <u>Liabilities:</u> | | | | | |
| Borrowings | \$ 12,398,446 | \$ 12,215,627 | \$ - | \$ - | \$ 12,215,627 |
| Total liabilities | \$ 12,398,446 | \$ 12,215,627 | \$ - | \$ - | \$ 12,215,627 |

Fair Value Measurements at December 31, 2014

| | Cost at 12/31/2014 | Amounts measured at fair value 12/31/2014 | Quoted prices in active markets for identical net assets (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|-----------------------|--|--|--|--|
| <u>Assets:</u> | | | | | |
| Investment properties | \$ 23,843,700 | \$ 24,298,809 | \$ - | \$ - | \$ 24,298,809 |
| Short term investments | 2,506,624 | 2,510,904 | 2,510,904 | - | - |
| Interest rate Caps & Fixed rate options | - | 454 | - | 454 | - |
| Total assets | \$ 26,350,324 | \$ 26,810,167 | \$ 2,510,904 | \$ 454 | \$ 24,298,809 |
| <u>Liabilities:</u> | | | | | |
| Borrowings | \$ 11,086,558 | \$ 10,974,936 | \$ - | \$ - | \$ 10,974,936 |
| Total liabilities | \$ 11,086,558 | \$ 10,974,936 | \$ - | \$ - | \$ 10,974,936 |

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8. FAIR VALUE MEASUREMENTS (continued)

Table 2 below shows the reconciliation of the beginning and ending balances for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods from January 1 thru December 31, 2015 and 2014.

Table 2

| Fair value measurements using significant unobservable inputs (Level 3) | | | | | | |
|--|---|--|---------------------------------|--|------------------------|--|
| | Beginning balance 01/01/15 | Realized and unrealized net gain (loss) | Currency translation | Acquisitions and capital expenditures | Dispositions | Ending balance 12/31/15 |
| <u>Assets:</u> | | | | | | |
| Investment properties | \$ 24,298,809 | \$ 161,763 | \$ 3,954,260 | \$ 1,816,137 | \$ (1,552,237) | \$ 28,678,732 |
| Total assets | \$ 24,298,809 | \$ 161,763 | \$ 3,954,260 | \$ 1,816,137 | \$ (1,552,237) | \$ 28,678,732 |
| <u>Liabilities:</u> | | | | | | |
| Borrowings | \$ 10,974,936 | \$ (66,406) | \$ 1,680,379 | \$ 13,216,832 | \$ (13,590,114) | \$ 12,215,627 |
| Total liabilities | \$ 10,974,936 | \$ (66,406) | \$ 1,680,379 | \$ 13,216,832 | \$ (13,590,114) | \$ 12,215,627 |

| Fair value measurements using significant unobservable inputs (Level 3) | | | | | | |
|--|---|--|---------------------------------|--|-----------------------|--|
| | Beginning balance 01/01/14 | Realized and unrealized net gain (loss) | Currency translation | Acquisitions and capital expenditures | Dispositions | Ending balance 12/31/14 |
| <u>Assets:</u> | | | | | | |
| Investment properties | \$ 21,146,337 | \$ 206,624 | \$ 2,707,919 | \$ 248,940 | \$ (11,011) | \$ 24,298,809 |
| Total assets | \$ 21,146,337 | \$ 206,624 | \$ 2,707,919 | \$ 248,940 | \$ (11,011) | \$ 24,298,809 |
| <u>Liabilities:</u> | | | | | | |
| Borrowings | \$ 11,987,274 | \$ 44,343 | \$ 1,410,582 | \$ - | \$ (2,467,263) | \$ 10,974,936 |
| Total liabilities | \$ 11,987,274 | \$ 44,343 | \$ 1,410,582 | \$ - | \$ (2,467,263) | \$ 10,974,936 |

9. CASH AND CASH EQUIVALENTS

On October 27, 2014, Terrafina signed a brokerage contract with Monex Casa de Bolsa, S.A. de C. V., Monex Grupo Financiero (the Broker), investing in such contract a net amount of \$2,500,000. The Broker invested the resources in titles of securities investment funds and in debt instruments. As of December 31, 2015, the Broker did not hold any investment in securities.

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9. CASH AND CASH EQUIVALENTS (continued)

As of December 31, 2015 and December 31, 2014, investments in securities and other cash equivalents are shown as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---------------------|---------------------|
| Beginning balance cash in banks | \$ 2,491,650 | \$ 728,550 |
| Beginning balance investments in securities | 2,510,904 | - |
| Additions | 1,147,865 | 2,946,832 |
| Disposals | (3,678,247) | (435,928) |
| Gain unrealized from fair value adjustment on bank investment | 19,478 | - |
| Total investment | - | 2,510,904 |
| Cash in banks | 4,467,863 | 2,491,650 |
| Ending Balance | \$ 4,467,863 | \$ 5,002,554 |

10. OTHER ASSETS

Details for other assets are as follows:

| | December 31, 2015 | December 31, 2014 |
|--------------------------------------|-------------------|-------------------|
| VAT recoverable outstanding | \$ 24,250 | \$ 6,492 |
| Guarantee deposits | 22,640 | 1,784 |
| Payments in advance for construction | 22,365 | 29,082 |
| Recoverable deposit | 17,207 | - |
| Guarantee reserve for borrowing | 4,556 | 14,718 |
| Others | 1,742 | 1,786 |
| | \$ 92,760 | \$ 53,862 |

11. RECOVERABLE TAXES

Recoverable taxes consist of the following:

| | December 31, 2015 | December 31, 2014 |
|---------------------|-------------------|-------------------|
| VAT Recoverable | \$ 328,421 | \$ 108,344 |
| Income Tax withheld | 1,283 | 7,339 |
| | \$ 329,704 | \$ 115,683 |

On November 12, 2015, Terrafina acquired a portfolio of 10 industrial properties. The transaction generated a recoverable VAT in the amount of \$136,758. On December 3, 2015 Terrafina held joint venture contract with Controladora and PAI transaction generated recoverable VAT in the amount of \$11,077.

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12. SUPPLIERS AND OTHER ACCOUNTS PAYABLE

Accounts payable are integrated as follows:

| | December 31, 2015 | December 31, 2014 |
|-------------------------------|-------------------|-------------------|
| Accounts payable to suppliers | \$ 99,271 | \$ 45,047 |
| Interest payable | 70,739 | 56,603 |
| Tax payable | 43,175 | 25,164 |
| Accrued management fee | 39,314 | 34,810 |
| Guarantee deposit | 35,826 | 148,664 |
| Retainage Payable | 23,790 | 12,545 |
| Accrued fees | 18,254 | 18,716 |
| Payroll payable | 11,899 | 8,655 |
| Other | 12,869 | 3,540 |
| | \$ 355,137 | \$ 353,744 |

13. DERIVATIVE FINANCIAL INSTRUMENTS

During 2015 and 2014, 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 15. The derivatives include interest rate Caps and Fixed Rate Options. The interest rate Caps provide that in the case the underlying Libor rate becomes higher than the strike price; the counterparty will pay to the Trust an amount equal to the difference between the strike price and the Libor rate on a monthly or quarterly basis. The Fixed Rate Options provide that in the case the underlying Libor rate rises, on the Exercise Date (as defined in the contract), the Trust will have the right to receive from the counterparty an amount in cash equal to the fair value of the derivative financial instrument with the characteristics described in the Fixed Rate Option contract, in particular in respect of Strike Price and Maturity.

The outstanding derivate financial instruments contracts at December 31, 2015, and at December 31, 2014, are summarized as follows:

| December 31, 2015 | | | | | | | |
|-------------------|----------|-----------------------|--------------------------|--------------|---------------|--------------------|-------------------|
| Derivative type | Bank | Notional amount (USD) | Underlying variable rate | Strike price | Fair value | Inception date | Maturity date |
| Cap | Banamex | 305,000 | 3M Libor | 2.00% | \$ - | September 23, 2013 | March 25, 2016 |
| Cap | Bancomer | 300,000 | 3M Libor | 2.00% | 15 | September 3, 2015 | December 30, 2016 |
| Total | | | | | \$ 15 | | |
| December 31, 2014 | | | | | | | |
| Derivative type | Bank | Notional amount (USD) | Underlying variable rate | Strike price | Fair value | Inception date | Maturity date |
| Cap | Banamex | 5,000 | 3M Libor | 2.00% | \$ - | June 4, 2013 | June 6, 2015 |
| Cap | Banamex | 85,000 | 3M Libor | 2.00% | - | June 27, 2013 | June 29, 2015 |
| Cap | Banamex | 305,000 | 3M Libor | 2.00% | 27 | September 23, 2013 | March 25, 2016 |
| Fixed Rate Option | HSBC | 272,800 | 3M Libor | 3.00% | 70 | October 24, 2013 | September 4, 2018 |
| Fixed Rate Option | HSBC | 47,850 | 1M Libor | 3.00% | 357 | October 24, 2013 | October 1, 2018 |
| Total | | | | | \$ 454 | | |

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14. ALLOWANCE FOR DOUBTFUL ACCOUNTS

At December 31, 2015 and December 31, 2014, allowance for doubtful accounts are shown as follows:

| | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|-----------------------|--------------------------|--------------------------|
| Beginning balance | \$ 61,871 | \$ 49,279 |
| Increases | 104,985 | 64,242 |
| Decreases | (56,292) | (25,541) |
| Write off | (16,776) | (31,660) |
| Currency conversion | 13,506 | 5,551 |
| Ending Balance | \$ 107,294 | \$ 61,871 |

15. BORROWINGS

During 2015, Terrafina entered into credit facility with Metlife of US\$22 million (\$376 million of Mexican pesos) as a result of the purchase of a portfolio of 10 properties. Likewise, Terrafina issued unsecured Bonds called "Senior Note" of US \$425 million (\$7,125 million on Mexican pesos) with maturity of 7 years, and a coupon rate of 5.25 %. The issuance proceeds were used to fully prepay HSBC debt and to repay Citi unsecured revolver outstanding.

Finally, Terrafina acquired a new unsecured syndicated revolver loan with Citibank as administrative agent for an amount of US\$375 million. First drawdown made on August 25, 2015, was used to fully prepay the former revolver loan.

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15. BORROWINGS (continued)

Borrowings include mortgage loans payable as summarized below:

| Credit entity [1], [2], [3], [4] | December 31, 2015 | | December 31, 2014 | | Interest rate (p.a.) [5], [6], [7] | Maturity date | Terms [8] |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|--|--------------------------------|--------------|
| | Principal balance | Fair value | Principal balance | Fair value | | | |
| BONO | \$ 7,312,763 | \$ 7,129,944 | \$ - | \$ - | Fixed - 5.25% | November, 2022 | I |
| GEREM | 4,699,977 | 4,699,977 | 4,020,240 | 3,967,137 | 3 months Libor + 3.75% | September, 2018 ^[9] | P&I |
| METLIFE | 385,706 | 385,706 | - | - | Fixed - 5.09% | November, 2016 | P&I |
| CITIBAN ^[10] | - | - | 6,402,330 | 6,352,552 | 3 months Libor + 3.50% | August, 2015 ^[11] | I |
| CITIBANK ^[12] | - | - | - | - | 3 months Libor + 2.40% ^[13] | August, 2018 ^[14] | I |
| BANORTE ^[15] | - | - | - | - | 28 days TIIE + 180 bps ^[16] | December, 2018 ^[17] | I |
| HSBC | - | - | 663,988 | 655,247 | 1 month Libor + 3.75% | November, 2015 ^[11] | P&I |
| Total of borrowing | \$ 12,398,446 | \$ 12,215,627 | \$ 11,086,558 | \$ 10,974,936 | | | |

[1] GEREM GE Real Estate México, S. de R.L. de C.V. As a result of the purchase of GEREM by Blackstone the new legal name of lender is BRE Debt México II, S. A. de CV. SOFOM ENR.

[2] Metlife = Metropolitan Life Insurance Company.

[3] Citibank = Citibank, N.A.

[4]. HSBC = HSBC México S.A.

[5] At December 31, 2015, and December 31, 2014, the 1 month Libor rate was 0.4295% and 0.17125% respectively, while the 3 months Libor rate was 0.6127% and 0.2556%, respectively.

[6] p.a. = per year.

[7] TIIE = Interbank Balance Interest Rate.

[8] P&I / I = Principal and interests; I = Interests only.

[9] Up to 2 years of maturity extension.

[10] Secured loan.

[11] Date of prepayment.

[12] Unsecured, committed, unused, revolving credit, up to an amount of USD\$375 million.

[13] The margin may vary according to the Rating and LTV.

[14] Up to 1 years of maturity extension.

[15] VAT unsecured, uncommitted credit; up to an amount of \$1,000 million of Mexican pesos.

[16] The rate increases to TIIE + 230 bps from 13 to 18 months for each disposal.

[17] Each disposal will have a maximum of 18 months.

As of December 31, 2015 and December 31, 2014, principal amounts of borrowings are payable as follows:

| | <1 year | 1 – 3 years | >3 years | Total |
|------|------------|--------------|--------------|---------------|
| 2015 | \$ 432,536 | \$ 4,653,147 | \$ 7,129,944 | \$ 12,215,627 |
| 2014 | \$ - | \$ 6,584,924 | \$ 4,390,012 | \$ 10,974,936 |

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15. BORROWINGS (continued)

All the loans are denominated in dollars. Terrafina gets benefit from not paying principal amortizations in respect of the following facilities until the following dates: Senior Notes until November, 2022 and GEREM until September 2018.

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 either a fixed rate or a floating rate with fixed rate options agreements to control the Trust's exposure in the event of rising interest rates.

The Trust carries exposure to the risk from changes in interest variable rates related to these borrowings. Interest rate risk decreases due to the use of derivative financial instruments as described in note 13.

During 2015 and 2014, the Trust repaid principal amounts under the borrowings contracted as follows:

| Bank | December 31, 2015 | | | | |
|--------------------|-------------------|-------------------|---------------------|---------------------|----------------------|
| | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Total |
| HSBC (usd) | \$ - | \$ - | \$ - | \$ 756,372 | \$ 756,372 |
| Citibank secured | 936,370 | 579,278 | 5,684,146 | - | 7,199,794 |
| Citibank unsecured | - | - | - | 5,633,308 | 5,633,308 |
| Metlife | - | - | - | 640 | 640 |
| | \$ 936,370 | \$ 579,278 | \$ 5,684,146 | \$ 6,390,320 | \$ 13,590,114 |

| Bank | December 31, 2014 | | | | |
|------------|-------------------|------------------|-------------------|---------------------|---------------------|
| | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Total |
| Banorte | \$ 6,862 | \$ 6,943 | \$ 7,281 | \$ 552,666 | \$ 573,752 |
| HSBC (usd) | - | - | - | 42,476 | 42,476 |
| HSBC (mxp) | 119,891 | 48,291 | 581,818 | - | 750,000 |
| GEREM | - | - | - | 152,313 | 152,313 |
| Citibank | - | - | - | 948,722 | 948,722 |
| | \$ 126,753 | \$ 55,234 | \$ 589,099 | \$ 1,696,177 | \$ 2,467,263 |

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16. NET ASSETS

Net Assets constitutes the initial contribution, the proceeds from the CBFI's issued and minority interest.

On June 16, 2015, Terrafina completed a joint venture with Controladora and PAI with an interest of 50%. The initial contribution of Controladora and PAI was \$101,949.

On March 20, 2015, Terrafina exercised 4,723,291 CBFI titles for the payment of performance fee as per the provisions on the contract that the Trust has signed with PLA Administradora Industrial, S. de R. L. de C.V.

On September 18, 2014, Terrafina carried out a second public placement of 221,472,434 real estate trust certificates CBFI's in Mexico, together with private offerings in other international markets (including an over-allotment option), for an amount equivalent to \$6,090,492 (\$27.50 for each CBFI). The issuing costs of \$198,725 were recognized as a reduction from the proceeds from the public placement and shown as capital contributions, net of issuing costs in the Net Assets which amounts up to \$5,891,767.

As of December 31, 2015 and 2014, the Trust had net contribution for \$15,939,832 and \$15,792,371 respectively and it consist of 607,210,360 and 602,487,069 of CBFI's in circulation respectively, as follows:

| No. of CBFI's | Details | | |
|--------------------|--|----|-------------------|
| 381,014,635 | As of December 31, 2013 | \$ | 9,900,604 |
| | CBFI's issued through the second public offer, cost net (September 18, 2014) | | 5,097,355 |
| 192,584,726 | | | 794,412 |
| 28,887,708 | CBFI's issued as over-allotment option | | 15,792,371 |
| <u>602,487,069</u> | As of December 31, 2014 | | |
| 4,723,291 | CBFI's exercised on March 20, 2015 | | 147,461 |
| <u>607,210,360</u> | As of December 31, 2015 | \$ | <u>15,939,832</u> |

As of December 31, 2015, the non-controlling interest is as follows:

| Details | | |
|--|----|----------------|
| Initial contribution of non-controlling interest | \$ | 101,949 |
| As of December 31, 2015 | \$ | <u>101,949</u> |

The Technical Committee approved and paid distributions as an upfront payment to the CBFI's holders based on the tax result of the year during the periods from January 1 to December 31, 2015 and from January 1 to December 31, 2014, as follows:

| <u>Distribution Date</u> | <u>Amount</u> |
|--------------------------------|----------------------------|
| March 13, 2015 | \$ 254,652 |
| May 15, 2015 | 296,326 |
| August 14, 2015 | 300,920 |
| November 06, 2015 | 286,217 |
| Total Distribution 2015 | <u>\$ 1,138,115</u> |

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16. NET ASSETS (continued)

| <u>Distribution Date</u> | <u>Amount</u> |
|--------------------------------|-------------------|
| March 21, 2014 | \$ 181,690 |
| May 21, 2014 | 199,806 |
| August 20, 2014 | 219,789 |
| November 14, 2014 | 243,263 |
| Total Distribution 2014 | \$ 844,548 |

Because of result of a tax loss for the period from January 1 to December 31, 2014, such distributions were considered as capital reimbursement for tax purposes.

| | <u>2015</u> | <u>2014</u> |
|--------------------------|---------------------------|---------------------------|
| Net Asset per basic CBFi | \$ 34.67 (absolute pesos) | \$ 30.19 (absolute pesos) |

17. CONCENTRATION OF RISK

The investment properties are concentrated in the industrial sector, accordingly, the investment portfolio may be subject to more rapid change in value than would be the case if the Trust was to maintain a wide diversification among investment sectors. The Trust mitigates this risk by concentrating their investment in various regions.

At December 31, 2015 and December 31, 2014, the Trust has real estate investments located throughout Mexico. The concentration based on the estimated fair values and established regions is as follows:

| | | <u>2015</u> | | | <u>2014</u> |
|--------------|---------------|-----------------------------|--------------|----------------------|-----------------------------|
| | | <u>Estimated Fair Value</u> | | | <u>Estimated Fair Value</u> |
| | <u>Region</u> | | | <u>Region</u> | |
| North | 52% | \$ 14,912,941 | 55 % | \$ 13,364,345 | |
| Central | 25% | 7,169,683 | 24 % | 5,831,715 | |
| Bajío | 23% | 6,596,108 | 21 % | 5,102,749 | |
| Total | 100% | \$ 28,678,732 | 100 % | \$ 24,298,809 | |

Rental revenue concentration by region for the periods between January 1 to December 31, 2015 and January 1 to December 31, 2014, is as follows:

| | | <u>2015</u> | | | <u>2014</u> |
|--------------|---------------|------------------------|--------------|---------------------|------------------------|
| | | <u>Rental Revenues</u> | | | <u>Rental Revenues</u> |
| | <u>Region</u> | | | <u>Region</u> | |
| North | 55% | \$ 1,116,834 | 58% | \$ 1,034,872 | |
| Central | 22% | 446,734 | 22% | 392,538 | |
| Bajío | 23% | 467,040 | 20% | 356,852 | |
| Total | 100% | \$ 2,030,608 | 100 % | \$ 1,784,262 | |

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18. OTHER OPERATING INCOME

Other operating income were as follows:

| | Twelve months ended December 31, 2015 | Twelve months ended December 31, 2014 |
|-----------------------|--|--|
| Service charge income | \$ 151,405 | \$ 145,081 |
| Other income | 15,211 | 54,644 |
| | \$ 166,616 | \$ 199,725 |

19. REAL ESTATE OPERATING EXPENSES

Real estate operating expenses were as follows:

| | Twelve months ended December 31, 2015 | Twelve months ended December 31, 2014 |
|------------------------------------|--|--|
| Repair, maintenance and facilities | \$ 155,742 | \$ 114,986 |
| Property tax and other taxes | 82,068 | 101,757 |
| Property management fees | 54,157 | 39,386 |
| Bad debt expense | 48,693 | 38,701 |
| Leasing commission | 40,407 | 32,862 |
| Electricity | 27,473 | 37,397 |
| Property insurance | 20,435 | 24,058 |
| Broker fees | 12,796 | 26,032 |
| Security | 11,032 | 13,485 |
| Property appraisals | 7,213 | 7,674 |
| Advertising | 1,849 | 1,564 |
| Other expenses | 15,731 | 13,577 |
| | \$ 477,596 | \$ 451,479 |

20. FEES AND OTHER EXPENSES

Fees and other expenses were as follows:

| | Twelve months ended December 31, 2015 | Twelve months ended December 31, 2014 |
|-------------------------|--|--|
| Incentive fee | \$ 147,913 | \$ - |
| Management fee | 121,819 | 108,298 |
| Legal fees | 52,959 | 15,480 |
| Administrative fee | 45,969 | 71,413 |
| Other professional fees | 22,480 | 12,570 |
| Payroll | 20,505 | 21,120 |
| Trustee fees | 4,933 | 4,644 |
| Other expenses | 21,647 | 8,157 |
| | \$ 438,225 | \$ 241,682 |

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21. FINANCE COSTS - NET

| | Twelve months ended December 31, 2015 | Twelve months ended December 31, 2014 |
|----------------------------------|--|--|
| Interest income on bank accounts | \$ 32,725 | \$ 32,061 |
| | | |
| | Twelve months ended December 31, 2015 | Twelve months ended December 31, 2014 |
| Interest expense | \$ 436,604 | \$ 447,054 |
| Borrowing costs | 169,347 | 11,563 |
| | \$ 605,951 | \$ 458,617 |

22. 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 Value Added Tax.

The reimbursed costs for the periods ended December 31, 2015 and December 31, 2014 were \$29,901 and \$29,536 respectively, and were eliminated at consolidation.

Advisor

The Trust pays 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 Value Added Tax.

The management fee accrued for the twelve months ended December 31, 2015 and December 31, 2014 was \$121,819 and \$108,298, respectively.

23. LEASES

Agreements entered into between the Trust and its tenants are classified as operating leases under IAS 17. The Trust is therefore the lessor in many and varied operating leases on its investment properties. Some fixed-term leases include renewal options for the tenants. These agreements, without considering renewal options, have expiration dates ranging from January 1, 2016 to January 31, 2029.

The minimum lease payments are the net accumulated rent over the lease term or up to the earliest possible termination date by the lessee (tenant), regardless of the probability of the tenant terminating or not exercising an option to renew.

Minimum lease payments from existing leases that the Trust will receive in future years are as follows:

| December 31, 2015 | <1 year | 1-5 years | >5 years | Total |
|-------------------------------|--------------|--------------|------------|--------------|
| Minimum future lease payments | \$ 2,123,673 | \$ 5,846,128 | \$ 713,321 | \$ 8,683,122 |
| | 25% | 67% | 8% | 100% |

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24. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business there can be various legal actions related to properties of the Trust. At December 31, 2015, 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.

25. SUBSEQUENT EVENTS

On February 16, 2016, the Technical Committee approved a dividend payment of \$275,731 corresponding to \$.4541 cents per CBFI.