Corporación Inmobiliaria Vesta, S. A. B. de C. V. and Subsidiaries

Corporación Inmobiliaria Vesta, S. A. B. de C. V. and Subsidiaries

Condensed Consolidated Interim Statements of Financial Position

As of September 30, 2017 and December 31, 2016
(In US dollars)

Assets	Notes	30/09/2017 (Unaudited)	31/12/2016
Current assets:			
Cash, cash equivalents and restricted cash	4	$ 141,324,800	$ 50,720,751
Financial assets held for trading	5	724,741	613,015
Recoverable taxes	6	11,167,895	21,794,481
Operating lease receivables	7	5,707,112	7,028,975
Prepaid expenses		1,172,448	37,191
Total current assets		160,096,996	80,194,413
Non-current assets:			
Investment property	8	1,550,215,361	1,415,714,762
Office furniture – Net		1,771,942	1,965,192
Guarantee deposits made and restricted cash		4,224,816	2,920,475
Total non-current assets		1,556,212,119	1,420,600,429
Total assets		$ 1,716,309,115	$ 1,500,794,842

Liabilities and stockholders' equity

Current liabilities:			
Accrued interest		$ 2,354,658	$ 1,609,233
Accounts payable and client advances		1,636,889	1,795,748
Taxes payable, mainly income taxes		118,264	550,557
Accrued expenses		2,699,826	1,981,263
Total current liabilities		6,809,637	5,936,801
Non-current liabilities:			
Long-term debt	9	510,594,955	340,871,417
Guarantee deposits received		10,235,158	8,868,661
Deferred income taxes	13.2	173,710,179	185,733,064
Total non-current liabilities		694,540,292	535,473,142
Total liabilities		701,349,929	541,409,943
Litigation, other contingencies and commitments	16		
Stockholders' equity:			
Capital stock	10	443,995,011	450,880,150
Additional paid-in capital		333,118,426	343,037,228
Retained earnings		277,456,001	201,751,251
Share-based payments reserve		2,870,666	1,973,372
Foreign currency translation		(42,480,918)	(38,257,102)
Total stockholders' equity		1,014,959,186	959,384,899
Total liabilities and stockholders' equity		$ 1,716,309,115	$ 1,500,794,842

See accompanying notes to condensed consolidated interim financial statements.

Corporación Inmobiliaria Vesta, S. A. B. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Profit or Loss and Comprehensive Income

For the nine and three months ended September 30, 2017 and 2016
(In US dollars)

	Notes	Nine Months ended 30/09/2017	Nine Months ended 30/09/2016	Three months ended 30/09/2017	Three months ended 30/09/2016
Revenues:					
Rental income		$ 80,351,926	$ 65,963,038	$ 28,150,143	$ 22,854,930
Property operating costs:					
Related to properties that generate rental income	12.1	(3,083,373)	(2,208,528)	(1,224,114)	(873,792)
Related to properties that do not generate rental income	12.1	(509,184)	(730,040)	(201,404)	(223,180)
Gross profit		76,759,369	63,024,470	26,724,625	21,757,958
Administration expenses	12.1	(9,448,513)	(8,107,143)	(3,266,449)	(2,849,493)
Depreciation		(266,063)	(212,587)	(90,261)	(71,246)
Other Income and Expenses:					
Interest income		39,611	3,305,812	13,538	544,384
Other income		339,146	513,993	(163,778)	26,379
Transaction costs on debt issuance		(94,909)	(713,694)	(100,797)	(227,135)
Interest expense		(12,895,602)	(15,827,305)	(5,090,549)	(4,106,570)
Exchange gain (loss)		9,242,607	(21,221,258)	(969,136)	(2,899,230)
Gain on revaluation of investment property		57,198,259	42,793,800	4,046,169	17,934,357
Total other income and (expenses)		53,829,112	8,851,348	(2,264,553)	11,272,185
Profit before income taxes		120,873,905	63,556,088	21,103,362	30,109,404
Income tax	13.1	(6,059,128)	(38,841,352)	(7,396,095)	(12,610,928)
Profit for the period		114,814,777	24,714,736	13,707,267	17,498,476
Other comprehensive loss:					
Items that may be reclassified subsequently to profit or loss - Exchange differences on translating other functional currency operations		(4,223,816)	(10,621,717)	591,303	(953,865)
Total comprehensive income for the period		$ 110,590,961	$ 14,093,019	$ 14,298,570	$ 16,544,611
Basic and diluted earnings (loss) per share	11	$ 0.187	$ 0.0391	$ 0.0224	$ 0.0276

See accompanying notes to condensed consolidated interim financial statements.

Corporación Inmobiliaria Vesta, S. A. B. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Changes in Stockholders' Equity

For the nine months ended September 30, 2017 and 2016
(In US dollars)

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Share-Based Payments Reserve	Foreign Currency Translation	Total Stockholders' Equity
Balances as of January 1, 2016	$ 455,741,735	$ 349,557,056	$ 185,494,148	$ 1,391,080	$ (17,397,035)	$ 974,786,984
Share-based payments	-	-	-	707,922	-	707,922
Dividends declared	-	-	(28,825,690)	-	-	(28,825,690)
Comprehensive income	-	-	24,714,736	-	(10,621,717)	14,093,019
Balances as of September 30, 2016	455,741,735	349,557,056	181,383,194	2,099,002	(28,018,752)	960,762,235
Balances as of January 1, 2017	450,880,150	343,037,228	201,751,251	1,973,372	(38,257,102)	959,384,899
Vested shares in respect of share-based payments	58,201	91,769	-	(149,970)	-	-
Share-based payments	-	-	-	1,047,264	-	1,047,264
Dividends declared	-	-	(39,110,027)	-	-	(39,110,027)
Repurchase of shares	(6,943,340)	(10,010,571)	-	-	-	(16,953,911)
Comprehensive income	-	-	114,814,777	-	(4,223,816)	110,590,961
Balances as of September 30, 2017	$ 443,995,011	$ 333,118,426	$ 277,456,001	$ 2,870,666	$ (42,480,918)	$ 1,014,959,186

See accompanying notes to condensed consolidated interim financial statements.

Corporación Inmobiliaria Vesta, S. A. B. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended September 30, 2017 and 2016
(In US dollars)

	30/09/2017	30/09/2016
Cash flows from operating activities:		
Profit before income taxes	$ 120,873,905	$ 63,556,088
Adjustments:		
Depreciation	266,063	212,587
Gain on revaluation of investment property	(57,198,259)	(42,793,800)
Effect of foreign exchange rates	(9,242,606)	21,221,258
Interest income	(39,611)	(3,305,812)
Interest expense	12,895,602	15,827,305
Expense recognized in respect of share-based payments	1,047,264	707,922
Working capital adjustments:		
(Increase) decrease in:		
Operating lease receivables – Net	1,321,863	(535,341)
Recoverable taxes	5,410,186	29,290,117
Prepaid expenses	(1,135,257)	(357,734)
Guarantee deposits made	-	-
Increase (decrease) in:		
Accounts payable	(158,859)	(1,227,149)
Guarantee deposits received	-	1,191,674
Accrued expenses	(8,468,508)	(38,871,760)
Income taxes paid	(1,275,021)	(617,028)
Net cash generated by operating activities	64,296,762	44,298,327
Cash flows from investing activities:		
Purchases of investment property	(67,849,630)	(121,044,066)
Acquisition of office furniture	(72,813)	-
Financial assets held for trading	-	149,509,928
Interest received	39,611	3,305,812
Net cash (used in) generated by investing activities	(67,882,832)	31,771,674
Cash flows from financing activities:		
Proceeds from the revolving credit facility	45,000,000	300,000,000
Direct debt issuance	125,000,000	-
Dividends paid	(39,110,027)	(28,825,690)
Repurchase of treasury shares	(16,953,911)	-
Interest paid	(11,187,026)	(17,528,797)
Repayments of borrowings	-	(298,069,960)
Collected guarantee deposits	1,366,497	2,750,579
Paid guarantee deposits	(1,304,341)	(666,962)
Costs of debt issuance	(1,239,613)	(5,958,093)
Net cash used in financing activities	101,571,579	(48,298,923)
Effects of exchange rates changes on cash	(7,269,734)	4,813,388
Net increase in cash, cash equivalents and restricted cash	90,715,775	32,584,466
Cash, cash equivalents and restricted cash at the beginning of the period	51,333,766	27,745,055
Cash, cash equivalents and restricted cash at the end of the period	$ 142,049,541	$ 60,329,521

See accompanying notes to condensed consolidated interim financial statements.

Notes to Unaudited Condensed Consolidated Interim Financial Statements unaudited

For the nine months ended September 30, 2017 and 2016
(In US dollars)

1. General information

Corporación Inmobiliaria Vesta, S. A. B. de C. V. ("Vesta") is a corporation incorporated in Mexico. The address of its registered office and principal place of business is Paseo de los Tamarindos 90, 28th floor, Mexico City.

Vesta and subsidiaries (collectively, the "Entity") are engaged in the development, acquisition and operation of industrial buildings and distribution facilities that are rented to corporations in eleven states throughout Mexico.

On July 22, 2016, the Entity entered into a new five-year credit agreement with various financial institutions for an aggregated amount of $150,000,000; the proceeds were received on the same date (the "Syndicated Loan"). The Syndicated Loan also includes a revolving credit facility up to $100,000,000 from which a total of $45,000,000 was utilized during the nine-month period ended September 30, 2017. On July 27, 2016, the Entity entered into a 10-year loan agreement with Metropolitan Life Insurance Company ("MetLife") for a total amount of $150,000,000.

On April 21, 2017, the Entity renewed, in advance, the Nestle and Nestle related Cereal Partners Worldwide lease agreements for a combined leasable area of 1,713,600 square feet. The leases were extended for 7 and 8 years, beginning on January 1, 2017 to December 31, 2023 and December 31, 2024, respectively. The lease agreements will remain indexed to Mexican investment units (UDIS per its acronym in Spanish) having monthly rent increases according to the increase in the value of UDIS. This new lease conditions had an impact on the value of the Entity's investment properties since they are valued at their fair value using the income approach as descried in Note 8 which was recognized in the current period.

On September 22, 2017, the Entity entered into an agreement to issue and sale Series A Senior Notes of $65,000,000 due on September 22, 2024, and Series B Senior Notes of $60,000,000 due on September 22, 2027. Each Series A Note and Series B Note will bear interest on the unpaid balance of such Series A Note and Series B Note at the rates of 5.03% and 5.31%, respectively, per annum payable semiannually on the 22nd day of September and March of each year.

2. Significant accounting policies

2.1 Basis of preparation

The accompanying unaudited consolidated interim financial statements have been prepared on the historical cost basis except for investment properties and financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these condensed consolidated interim financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of International Financial Reporting Standard ("IFRS") 2, *Share-based Payments*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

2.2 Interim financial condensed statements

The accompanying condensed consolidated interim financial statements as of September 30, 2017 and for the three months ended September 30, 2017 and 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and have not been audited. In the opinion of Entity management, all adjustments (consisting mainly of ordinary, recurring adjustments) necessary for a fair presentation of the accompanying condensed consolidated interim financial statements are included. The results of the periods are not necessarily indicative of the results for the full year. These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements of the Entity and their respective notes for the year ended December 31, 2016.

The accounting policies and methods of computation are consistent with the audited consolidated financial statements for the year ended December 31, 2016.

2.3 Basis of consolidation

The condensed consolidated interim financial statements incorporate the financial statements of Vesta and entities (including structured entities) controlled by Vesta and its subsidiaries. Control is achieved when the Entity:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

	Ownership percentage		
Subsidiary/entity	**30/09/2017**	**31/12/2016**	**Activity**
QVC, S. de R.L. de C.V.	99.99%	99.99%	Holds investment properties
QVC II, S. de R.L. de C.V.	99.99%	99.99%	Holds investment properties
WTN Desarrollos Inmobiliarios de México, S. de R.L. de C.V.	99.99%	99.99%	Holds investment properties
Vesta Baja California, S. de R.L. de C.V.	99.99%	99.99%	Holds investment properties
Vesta Bajío, S. de R.L. de C.V.	99.99%	99.99%	Holds investment properties
Vesta Queretaro, S. de R.L. de C.V.	99.99%	99.99%	Holds investment properties
Proyectos Aeroespaciales, S. de R.L. de C.V.	99.99%	99.99%	Holds investment properties
CIV Infraestructura, S. de R.L. de C.V.	99.99%	99.99%	Holds investment properties
Vesta DSP, S. de R. L. de C.V.	99.99%	99.99%	Holds investment properties
Vesta Management, S. de R.L. de C.V.	99.99%	99.99%	Provides administrative services to the Entity
Servicio de Administración y Mantenimiento Vesta S. de R.L. de C.V.	99.99%	99.99%	Provides administrative services to the Entity

3. Application of new and revised International Financial Reporting Standards (IFRS)

3.1 New and revised IFRSs in issue but not yet effective

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 2	Classification and measurement of share-based payments[1]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

4. Cash, cash equivalents and restricted cash

For purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, including restricted cash. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statements of financial position as follows:

	30/09/2017 (Unaudited)	31/12/2016
Cash and bank balances	$ 141,280,233	$ 48,054,432
Restricted cash	44,567	2,666,319
	141,324,800	50,720,751
Non-current restricted cash	724,741	735,312
Total	$ 142,049,541	$ 51,456,063

Restricted cash represents balances held by the Entity that are only available for use under certain conditions pursuant to the loan agreements entered into by the Entity. Such conditions include payment of monthly debt service and compliance with certain covenants set forth in the loan agreement. These restrictions are classified according to their restriction period: less than 12 months and over one year, considering the period of time in which such restrictions are expected to be fulfilled. Non-current restricted cash was classified within guarantee deposits made in the accompanying consolidated statements of financial positon.

5. Financial assets held for trading

The portfolio of financial assets that the Entity has classified as held for trading relates to investments used by the Entity to manage its cash surplus. Such financial assets were acquired in active markets and are principally comprised of investment funds with no maturity date and which mainly invest in AAA debt instruments, such as government bonds; they are classified as level 1 in the IFRS fair value hierarchy.

6. Recoverable taxes

	30/09/2017 (Unaudited)	31/12/2016
Recoverable value-added tax (“VAT”)	$ 5,973,920	$ 10,438,157
Recoverable income taxes	5,090,804	11,320,220
Other receivables	103,171	36,104
	$ 11,167,895	$ 21,794,481

7. Operating lease receivables

7.1 <u>The aging profile of operating lease receivables as of the dates indicated below are as follows:</u>

	30/09/2017 (Unaudited)	31/12/2016
0-30 days	$ 5,014,303	$ 4,541,467
30-60 days	226,316	1,588,869
60-90 days	142,511	551,533
Over 90 days	323,982	347,106
Total	$ 5,707,112	$ 7,028,975

Pursuant to the lease agreements, rental payments should be received within 30 days following their due date; thereafter the payment is considered past due. As shown in the table above, 88% and 64% of all operating lease receivables are current as of September 30, 2017 and December 31, 2016, respectively.

All rental payments past due are monitored by the Entity; for receivables outstanding from 30 to 90 days, efforts are made to collect payment from the respective client. Operating lease receivables outstanding for more than 30 days but less than 60 days represent 4% and 22% of all operating lease receivables as of September 30, 2017 and December 31, 2016, respectively. Operating lease receivables outstanding for more than 60 and less than 90 days represent 2% and 8% of all operating lease receivable as of September 30, 2017 and December 31, 2016. Operating lease receivable outstanding greater than 90 days represent 6% and 5% of all operating lease receivable as of September 30, 2017 and December 31, 2016.

7.2 Movement in the allowance for doubtful accounts receivable

A general reserve is created for all accounts receivable aged more than 90 days. The Entity individually reviews each of its operating lease receivables and according to the aging report determines the need to exclude any such receivables from the general reserve allowance or create an additional allowance for the recoverability of other receivables. The balance as of September 30, 2017 and December 31, 2016 are $307,494 and $41,314, respectively.

7.3 Client concentration risk

As of September 30, 2017 and December 31, 2016, one of the Entity's client accounts for 34% or $1,917,124 and 29% or $2,040,061, respectively, of the operating lease receivables balance. The same client accounted for 7% and 11% of the total rental income of Entity for the nine-month periods ended September 30, 2017 and 2016, respectively. No other client accounted for more than 10% of the total rental income of the Entity for the nine months ended September 30, 2017 and 2016.

7.4 Leasing agreements

Operating leases relate to non-cancellable lease agreements over the investment properties owned by the Entity, which generally have terms ranging between 5 to15 years, with options to extend the term up to a total term of 20 years. Rents are customarily payable on a monthly basis, and are adjusted annually according to applicable inflation indices (US and Mexican inflation indices). Security deposits are typically equal to one or two months' rent. Obtaining property insurance (third party liability) and operating maintenance are obligations of the tenants. All lease agreements include a rescission clause that entitles the Entity to collect all unpaid rents during the remaining term of the lease agreement in the event that the client defaults in its rental payments, vacates the properties, terminates the lease agreement or enters into bankruptcy or insolvency proceedings. All lease agreements are classified as operating leases and do not include purchase options, except for two lease agreements which contain a purchase option at market conditions at the end of the lease term.

7.5 Non-cancellable operating lease receivables

Future minimum lease payments receivable under non-cancellable operating lease agreements are as follows:

	30/09/2017 (Unaudited)
Not later than 1 year	$ 128,393,031
Later than 1 year and not later than 3 years	232,377,765
Later than 3 year and not later than 5 years	283,061,543
Later than 5 years	264,270,261
	$ 908,102,600

8. Investment property

The Entity uses external appraisers in order to determine the fair value for all of its investment properties. The independent appraisers, who hold recognized and relevant professional qualifications and have vast experience in the types of investment properties, owned by the Entity, use valuation techniques such as the discounted cash flows approach, replacement cost approach and income cap rate approach. The techniques used include assumptions, the majority of which are not directly observable in the market, to estimate the fair value of the Entity's investment property such as discount rates, long-term NOI, inflation rates, absorption periods and market rents.

The values, determined by the external appraisers annually, are recognized as the fair value of the Entity's investment property at the end of each reporting period. The appraisers use a discounted cash flow approach to determine the fair value of land and buildings (using the expected net operating income ("NOI") of the investment property) and a market approach to determine the fair value of land reserves. Gains or losses arising from changes in the fair values are included in the consolidated statements of profit and comprehensive income in the period in which they arise.

The Entity's investment properties are located in México and they are classified as Level 3 in the IFRS fair value hierarchy. The following table provides information about how the fair values of the investment properties are determined (in particular, the valuation technique(s) and inputs used).

Property	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Value/range	Relationship of unobservable inputs to fair value
Buildings and land	Level 3	Discounted cash flows	Discount rate	2017: 9.35% 2016: 9.75%	The higher the discount rate, the lower the fair value.
			Long-term NOI	Based on contractual rent and then on market related rents	The higher the NOI, the higher the fair value.
			Inflation rates	Mexico: 4.1% in 2017 and 3.5% in 2016 U.S.: 2.1% in 2017 and 2.2% in 2016	The higher the inflation rate, the higher the fair value.
			Absorption period	From 3 to 9 months	The shorter the absorption period, the higher the fair value.
			Market related rents	Depending on the park/state	The higher the market rent, the higher the fair value
			Exchange rate	18.20 Mexican pesos per $1 in 2017 and 20 per $1 in 2016	The higher the exchange rate, the lower the fair value
Land reserves	Level 3	Market value	Price per acre	Weighted average price per acre $125,146 in 2017 and $105,893 in 2016	The higher the price, the higher the fair value.

The table below sets forth the aggregate values of the Entity's investment properties for the years indicated:

	30/09/2017 (Unaudited)	31/12/2016
Buildings and land	$ 1,465,053,000	$ 1,393,000,000
Land improvements	13,246,334	9,652,444
Land reserves	85,059,000	79,377,000
	1,563,358,334	1,482,029,444
Less: Cost to complete construction in-progress	(13,142,973)	(66,314,682)
Balance at end of year	$ 1,550,215,361	$ 1,415,714,762

The reconciliation of investment property is as follows:

	30/09/2017 (Unaudited)	31/12/2016
Balance at beginning of year	$ 1,415,714,762	$ 1,214,930,005
Additions	67,849,630	158,013,760
Foreign currency translation effect	9,452,710	(24,233,614)
Gain on revaluation of investment property	57,198,259	67,004,611
Balance at end of year	$ 1,550,215,361	$ 1,415,714,762

A total of $1,077,234 additions to investment property related to a land reserve and new buildings which were acquired from a third party, were not paid as of December 31, 2016; these additions were paid during the nine months ended September 30, 2017.

During 2007, the Entity entered into an agreement to build the Querétaro Aerospace Park, which consists of a trust created by the Government of the State of Querétaro, as grantor (*fideicomitente)*, Aeropuerto Intercontinental de Querétaro, S. A. de C. V., as a participant for the purposes of granting its consent, Bombardier Aerospace México, S.A. de C.V., as beneficiary (*fideicomisario*), and BBVA Bancomer, S.A., as trustee (*fiduciario*), to which the Entity, through its subsidiary, Proyectos Aeroespaciales, adhered as grantee and beneficiary. The Government of the State of Queretaro contributed certain rights to the trust, including rights to use the land and the infrastructure built by the state of Queretaro, allowing Proyectos Aeroespaciales to build and lease buildings for a total period equivalent to the term of the concession granted to the Aerospace Park; the remaining term is approximately 42 years as of December 31, 2016.

Proyectos Aeroespaciales is the only designated real estate developer and was granted the right to use the land and infrastructure to develop industrial facilities thereon, lease such industrial facilities to companies in the aerospace and related industries and to collect the rents derived from the lease of the industrial facilities, for a period of time equivalent to the remaining term of the airport concession (approximately 42 years as of December 31, 2016). With respect to such rights, all construction, addition and improvements made by Proyectos Aeroespaciales to the contributed land (including without limitation, the industrial facilities) will revert in favor of the Government of the State of Queretaro at the end of the term of the trust, for zero consideration.

During 2013, the Company entered into an agreement with Nissan Mexicana, S.A. de C.V. ("Nissan") to build and lease to Nissan the Douki Seisan Park ("DSP Park") located in Aguascalientes, Mexico. The land where the DSP Park is located is owned by Nissan. On July 5, 2012, Nissan created a trust (trust No. F/1704 with Deutsche Bank México, S.A. as trustee) to which the Company (through one of its subsidiaries, Vesta DSP, S. de R.L. de C.V), is beneficiary and was granted the use of the land for a period of 40 years. The infrastructure and all the related improvements were built by and are managed by the Company.

As of September 30, 2017 and December 31, 2016, the Entity's investment properties have a gross leasable area (unaudited) of 24, 620,330 square feet (or 2,287, 303 square meters) and 22,569,585 square feet (or 2,096,783 square meters), respectively and they were 92.7% and 89.4% occupied by tenants, respectively. As of September 30, 2017 and December 31, 2016, investment properties with a gross leasable area of 2,322,919 square feet (or 221,128 square meters) and 2,008,397 square feet (or 186,586 square meters), respectively, were under construction, representing an additional 6.7% and 8.9% of the Entity's total leasable area.

9. Long-term debt

On September 22, 2017, the Entity entered into an agreement to issue and sale Series A Senior Notes of $65,000,000 due on September 22, 2024, and Series B Senior Notes of $60,000,000 due on September 22, 2027. Each Series A Note and Series B Note will bear interest on the unpaid balance of such Series A Note and Series B Note at the rates of 5.03% and 5.31%, respectively, per annum payable semiannually on the 22nd day of September and March of each year.

On July 22, 2016, the Entity entered into a new five-year credit agreement with various financial institutions for an aggregated amount of $150,000,000; the proceeds were received on the same date (the "Syndicated Loan"). The Syndicated Loan also includes a revolving credit facility up to $100,000,000 from which a total of $45,000,000 were utilized during the three month period ended on such date. On July 27, 2016, the Entity entered into a 10-year loan agreement with Metropolitan Life Insurance Company ("MetLife") for a total amount of $150,000,000. The long-term debt is as follows:

Loan	Amount	Annual interest rate	Monthly amortization	Maturity	30/09/2017	31/12/2016
Syndicated Loan	$150,000,000	Variable rate plus margin (1)	(1)	July 2021	$ 150,000,000	$ 150,000,000
Revolving facility	45,000,000	Variable rate plus margin (2)	(2)	July 2019	45,000,000	-
MetLife 10-year	150,000,000	4.55%	(3)	August 2026	150,000,000	150,000,000
MetLife 7-year	47,500,000	4.35%	(4)	April 2022	47,500,000	47,500,000
Series A Senior Note	65,000,000	5.03%	(5)	September 22, 2024	65,000,000	
Series B Senior Note	60,000,000	5.31%	(5)	September 22, 2027	60,000,000	-
					517,500,000	347,500,000
Less: direct issuance cost					(6,905,045)	(6,628,583)
Total long-term debt					$ 510,594,955	$ 340,871,417

(1) Five-year Syndicated Loan, interest is paid on a quarterly basis and calculated using LIBOR (London interbank offered rate) plus an applicable margin. The applicable margin varies depending on the Entity's leverage ratio (higher or lower than 40%) and the number of months that the Syndicated Loan has been outstanding. Currently the applicable margin is 200 basis points; if leverage ratio is higher than 40% the margin would increase to 225 basis points. Principal amortization will commence on July 22, 2019; thereafter the Syndicated Loan will have quarterly principal payments equal to 1.25% of the loan amount.

(2) Three-year revolving facility, interest is paid on a monthly basis calculated using LIBOR plus 225 basis points. The loan matures on July 22, 2019.

(3) 10-year loan agreement with MetLife, interest on this loan is paid on a monthly basis and calculated using an annual fixed rate of 4.55%. Principal amortization will commence on September 1, 2023.This loan is guaranteed with 48 of the Entity's properties.

(4) On March 9, 2015, the Entity entered into a 7-year loan with MetLife, interest on this loan is paid on a monthly basis and calculated using an annual rate of 4.35%. The loan has monthly interest only payments for 42 months and thereafter monthly amortization of principal and interest until it matures on April 1, 2022. The loan is secured by 6 of the Entity's investment properties.

(5) Senior notes payable Series A and B will bear interest on the unpaid balance of such Series A Note and Series B Note at the rates of 5.03% and 5.31%, respectively, per annum payable semiannually on the 22nd day of September and March of each year.

As of December 31, 2016, the fair value of the long-term debt is $365,666,411 and it would be classified as level 3 in the fair value hierarchy. These credit agreements require the Entity to maintain certain financial ratios (such as Cash-on-Cash and debt service coverage ratios) and to comply with certain affirmative and negative covenants. The Entity was in compliance with these covenants under the credit agreement as of September 30, 2017 and December 31, 2016.

The credit agreements also entitles MetLife to withhold certain amounts deposited by the Entity in a separate fund as guarantee deposits for the debt service and tenants guarantee deposits of the Entity's investment properties pledged as collateral. Such amounts are presented as guarantee deposit assets in the statement of financial position.

Scheduled maturities and periodic amortization of long-term debt are as follows:

As of December 2018	$ 123,019
As of December 2019	763,388
As of December 2020	45,791,939
As of December 2021	833,388
Thereafter	469,988,266
Less: direct issuance cost	(6,905,045)
Total long-term debt	$ 510,594,955

10. Capital stock

10.1 Capital stock as of September 30, 2017 (unaudited) and December 31, 2016 is as follows:

	2017		2016	
	Number of shares	**Amount**	**Number of shares**	**Amount**
Fixed capital				
Series A	5,000	$ 3,696	5,000	$ 3,696
Variable capital				
Series B	608,059,763	443,991,315	621,092,663	450,876,454
Total	608,064,763	$ 443,995,011	621,097,663	$ 450,880,150

Stockholders' equity, except restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years. As of September 30, 2017, and December 31, 2016 there were a total of 23,073,160 and 10,626,460 shares in treasury which were repurchased during the nine months ended September 30, 2017 and for the year ended December 31, 2016 respectively.

10.2 Fully paid ordinary shares

	Number of shares	Amount	Additional paid-in capital
Balance as of January 1, 2016	631,137,923	$ 455,741,735	$ 349,557,056
Vested shares	163,089	104,640	173,193
Repurchase of shares	(10,203,349)	(4,966,225)	(6,693,021)
Balance as of December 31, 2016	621,097,663	$ 450,880,150	$ 343,037,228
Vested shares	118,670	58,201	91,769
Repurchase of shares	(13,151,570)	(6,943,340)	(10,010,571)
Balance as of September 30, 2017 (unaudited)	608,064,763	$ 443,995,011	$ 333,118,426

10.3 Dividend payments

Pursuant to a resolution of the general ordinary stockholders meeting on March 2, 2017, the Entity declared a dividend of approximately $0.064 per share, for a total dividend of $39,110,027. The dividend was paid on March 30, 2017 in cash.

11. Earnings per share

The amounts used to determine earnings per share are as follows:

	Nine months ended as of September 30, 2017		
	Earnings	Weighted-average number of shares	Dollars per share
Profit for the period	$ 114,814,777	613,428,732	$ 0.1872

	Nine months ended as of September 30, 2016		
	Earnings	Weighted-average number of shares	Dollars per share
Profit for the period	$ 24,714,736	631,139,923	$ 0.0391

	Three months ended as of September 30, 2017		
	Earnings	Weighted-average number of shares	Dollars per share
Profit for the period	$ 13,707,267	614,356,646	$ 0.0224

	Three months ended as of September 30, 2016		
	Earnings	Weighted-average number of shares	Dollars per share
Profit for the period	$ 17,498,476	631,844,726	$ 0.0276

For the nine and three months ended September 30, 2017 and 2016, basic and diluted earnings per share are the same because the weighted average number of instruments considered potentially dilutive are 1,479,517 and 226,159, respectively, which do not have an impact on the per share amount

12. Property operating costs and administration expenses

12.1 Property operating costs consist of the following:

12.1.1 Direct property operating costs from investment properties that generate rental income during the year:

	Nine Months ended 30/09/2017	Nine Months ended 30/09/2016	Three Months ended 30/09/2017	Three Months ended 30/09/2016
Real estate tax	$ 989,769	$ 689,290	$ 343,337	$ 237,141
Insurance	272,237	228,515	123,889	79,025
Maintenance	564,136	527,519	274,377	214,256
Structural maintenance accrual	105,923	-	24,468	-
Other property related expenses	1,151,308	763,204	458,043	343,370
	3,083,373	2,208,528	1,224,114	873,792

12.1.2 Direct property operating costs from investment property that do not generate rental income during the year:

	Nine Months ended 30/09/2017	Nine Months ended 30/09/2016	Three Months ended 30/09/2017	Three Months ended 30/09/2016
Real estate tax	$ 163,651	$ 223,510	$ 66,115	$ 56,567
Insurance	30,605	42,548	14,415	11,988
Maintenance	58,505	85,437	25,693	22,813
Other property related expenses	256,423	378,545	95,181	131,812
	509,184	730,040	201,404	223,180
Total property operatin cost	$ 3,592,557	$ 2,938,568	$ 1,425,518	$ 1,096,972

12.1.3 Administration expenses consist of the following:

	Nine Months ended 30/09/2017	Nine Months ended 30/09/2016	Three Months ended 30/09/2017	Three Months ended 30/09/2016
Marketing expenses	$ 1,061,012	$ 781,581	$ 373,081	$ 285,572
Auditing, legal and consulting expenses	837,416	971,468	256,894	347,710
Property appraisal and other fees	265,378	251,330	92,539	93,231
Direct employee benefits and other benefits	4,901,358	4,452,123	1,665,485	1588,476
Other administrative expenses	1,158,024	902,146	403,294	323,534
Equity trading related costs	142,671	140,433	60,672	47,218
	8,365,859	7,499,081	2,851,965	2,685,741
Long-term incentive – Note 15	1,082,654	608,062	414,484	163,752
Total	$ 9,448,513	$ 8,107,143	$ 3,266,449	$ 2,849,493

13. Income taxes

The Entity is subject to ISR. The rate of current income was 30%.

13.1 Income taxes are as follows:

	Nine Months ended 30/09/2017	Nine Months ended 30/09/2016	Three Months ended 30/09/2017	Three Months ended 30/09/2016
ISR expense:				
Current	$ 20,917,825	$ 2,145,615	$ 3,297,624	$ 159,174
Expired ISR credit on dividends	-	640,038	-	207,911
Deferred	(14,858,697)	36,055,699	4,098,471	12,243,843
Total income taxes	$ 6,059,128	$ 38,841352	$ 7,396,095	$ 12,610,928

13.2 The main items originating the deferred ISR liability are:

	30/09/2017 (Unaudited)	31/12/2016
Deferred ISR liability:		
Investment properties	$ (182,624,552)	$ (199,134,089)
Effects of tax loss carryforwards	9,980,724	14,205,287
Other provisions and prepaid expenses	(1,066,351)	(804,262)
Deferred income taxes – Net	$ (173,710,179)	$ (185,733,064)

To determine deferred ISR, the Entity applied the applicable tax rates to temporary differences based on their estimated reversal dates. The effective rate differs from the statutory rate mainly due to the impact of the appreciation of the Peso during the period as compared to the dollar which had an impact on the tax basis of the Entity's assets which for tax purposes are peso denominated.

13.3 A reconciliation of the changes in the deferred tax liability balance is presented as follows:

	30/09/2017 (Unaudited)	31/12/2016
Deferred tax liability at the beginning of the period	$ (185,733,064)	$ (144,140,530)
Movement included in profit or loss	14,858,697	(48,862,618)
Movement included in other comprehensive income	(2,835,812)	7,270,084
Deferred tax liability at the end of the period	$ (173,710,179)	$ (185,733,064)

13.4 The benefits of restated tax loss carryforwards for which the deferred ISR asset has been recognized can be recovered subject to certain conditions. Restated amounts as of September 30, 2017 and expiration dates are:

Year of Expiration	Tax Loss Carryforwards
2023	$ 7,557,612
2024	-
2025	2,893,858
2026	9,435,241
2027	13,382,367
	$ 33,269,078

14. Transactions and balances with related parties

14.1 Compensation of key management personnel

The remuneration of Entity's management and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends. The remuneration of members of key management personnel during the year was as follows:

	Nine Months ended 30/09/2017	Nine Months ended 30/09/2016	Three Months ended 30/09/2017	Three Months ended 30/09/2016
Short-term benefits	$ 2,741,582	$ 1,587,693	$ 613,922	$ 516,935
Share-based compensation expense	1,082,654	608,062	414,484	163,752
	$ 3,824,236	$ 2,195,755	$ 1,028,406	$ 680,687

15. Share-based payments

15.1 Details of the share-based plans of the Entity

The Entity has granted shares to its executives and employees under two different plans as follows:

i. Under the Vesta 20-20 Long-term Incentive Plan (the Vesta 20-20 Incentive Plan), as approved by the Board of Directors, the Entity will use a "Relative Total Return" methodology to calculate the total number of shares to be granted. The shares granted each year will vest over the three years following the grant date.

   The total number of shares to be granted during the six year period is 10,428,222 shares, the shares to be used to settle this plan were issued by the Entity during January 2015; no awards will be paid in cash and the shares will be contributed to a trust and delivered in three equal settlement dates to the executives after 24, 36 and 48 months from the grant date, provided that the eligible executives remain in the employment of the Entity.

   The total number of shares to be granted in each of the six years ranges from 695,215 to 1,738,037 shares, at the expected performance level, to a maximum of 2,607,055 shares, if the Entity's shares perform at peak performance compared to other publicly traded entities in each year.

   The shares to be granted in each of the six years will be contributed to a trust and delivered in three equal settlement dates to the executives after 24, 36 and 48 months from the grant date, provided that the eligible executives remain in the employment of the Entity.

ii. Under the 2014 Long-term Incentive Plan (the 2014 Incentive Plan), the Entity has a share-based plan for top executives of the Entity. In accordance with the terms of the plan, as approved by the board of directors, based on certain performance metrics, the Entity executed a long-term incentive plan that will be settled by the Entity with its own shares which have been repurchased in the market. Under this plan, eligible executives will receive compensation, based on their performance during 2014, settled in shares and delivered over a three-year period. For this plan shares are kept in treasury and may be placed in a trust; they will be delivered to the executives in three equal settlement dates to the executives after 24, 36 and 48 months from the grant date, provided that the eligible executives remain in the employment of the Entity.

15.2 Fair value of share options granted in the year

i. Vesta 20-20 Incentive plan - Based on the performance of the Entity's shares for the year ended December 31, 2016, the shares granted were 993,678. This expense was calculated as the grant date fair value of the awards as determined using a Monte Carlo model which took into consideration the probability of the performance of the Entity's shares during the year. As this performance is considered a market vesting condition in accordance with IFRS 2, *Share-based Payments*, the compensation expense, as determined on grant date, is not revised even if no awards are ultimately granted.

ii. 2014 Incentive Plan - The fair value of the share awards granted under the 2014 Plan, was determined based on a fixed amount of cash determined as per the Entity's plan. It is assumed that executives will receive the awards after vesting date.

15.3 Compensation expense recognized

The long-term incentive expense for the nine and three months ended September 30, 2017 and 2016 was as follows:

	Nine Months ended 30/09/2017	Nine Months ended 30/09/2016	Three Months ended 30/09/2017	Three Months ended 30/09/2016
Vesta 20-20 Incentive Plan	$ 1,048,660	$ 613,846	$ 402,761	$ 165,680
2014 Incentive Plan	33,994	(5,784)	11,723	(1,928)
Total long-term incentive ex	$ 1,082,654	$ 608,062	$ 414,484	$ 163,752

Compensation expense related to these plans will continue to be accrued through the end of the service period.

15.4 Share awards outstanding at the end of the year

As of September 30, 2017 and December 31, 2016, there are 1,479,517 shares outstanding with a weighted average remaining contractual life of 22 months.

16. Litigation, other contingencies and commitments

Litigation

In the ordinary course of business, the Entity is party to various legal proceedings. The Entity is not involved in any litigation or arbitration proceeding for which the Entity believes it is not adequately insured or indemnified, or which, if determined adversely, would have a material adverse effect on the Entity or its financial position, results of operations or cash flows.

Commitments

As mentioned in Note 8, all rights to construction, improvements and infrastructure built by the Entity in the Queretaro Aerospace Park and in the DSP Park automatically revert back to the government of the State of Queretaro and to Nissan at the end of the concessions, which is approximately in 40 and 34 years, respectively.

17. Unaudited condensed consolidated interim financial statements issuance authorization

On October 26, 2017 the issuance of the accompanying unaudited condensed consolidated interim financial statements was authorized the Board of Directors and consequently do not reflect events after this date.

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