



GRAND RESIDENCES

BY ROYAL RESORTS®

ADVISORY COUNCIL MEETING
OCTOBER 24, 2019





General Introduction

GRAND RESIDENCES ADVISORY COUNCIL MEETING, OCTOBER 24, 2019

Advisory Council Members: *Douglas Bayerlein, Hugo Carlos Berlanga, Evelyn Hogue Dowell, Robert Boyd Stevens, Joseph Whitlock*

The annual Grand Residences Advisory Council meeting was held at the resort on October 24, 2019. All Advisory Council members were present.

Prior to the meeting, Council toured the resort with Resort Manager Daniela Trava. She pointed out the anti-slip material that was installed in a one-meter perimeter around the pools during Maintenance Week as an additional safety measure. An anti-slip product was applied to the pool decks and around the private pools on the rooftop terraces and she also mentioned the planned purchase of 100 new pool chairs in 2020.

Due to corrosion and salt damage, the Heaven Bar entrance had to be renovated and repainted in 2019. Daniela Trava also commented that as of December, the beach bar is offering a new menu with more ceviches and salads for Grand Residences owners and members to enjoy.

Both beachfront buildings and Building 10 and 9B were painted in 2019 and in 2020 the painting team will complete the main building.

During the villa inspection, Daniela Trava explained the preventive maintenance program and the tasks it entails. Staff complete two and a half villas per week and their work includes in-depth cleaning and polishing, stripping and repainting the wooden tables and doors and giving them a new coat of varnish. She also said that air-conditioning units are dismantled and cleaned during the year and technicians from supplier companies visit the resort every month to check electrical appliances. As some of the appliance models are no longer available Management is looking for similar ones.

Evelyn Hogue Dowell suggested adding extra hooks in the bathroom to hang robes, swimsuits or towels. Hugo Berlanga also recommended adding a handrail in the toilets for elderly or physically challenged guests and commented that he has seen that the towel mats can be slippery. Their recommendations were noted for follow up with Housekeeping.

Daniela Trava has a number of initiatives to reduce the resort's environmental footprint and she briefed Council on a new Go Green towel campaign. There are now signs in the bathrooms asking guests to hang their towels up if they would like to use them again and to put them on the floor if they want to request new ones.

She added that biodegradable food containers and straws made from avocado seeds and bamboo are now used at the resort instead of plastic and polystyrene products. Waiters will only bring straws with drinks if guests expressly ask for them. She also mentioned that she is reducing the consumption of single use plastic water bottles by serving jugs of water by the pool and in other areas and hopes to implement this measure in the suites and villas too. Currently 24,000 bottles of water are consumed at the resort during the year.

Responding to a question from the Advisory Council about staff leaving all the lights on in the villas, Daniela Trava said that she would instruct them to only leave one light on when vacating the villa.

During the tour of service areas in the basement, Daniela Trava showed Council the new proving cabinet and oven in the resort bakery. In the Housekeeping Warehouse she explained that the resort has achieved savings this year by tightening inventory controls and a staff awareness campaign on the importance of economy and no wastage, for example, when using paper towels, plastic wrapping and aluminum foil. By spreading this message, the resort saves money, resources and helps protect the environment.

In the Resort Laundry she told Council that all the washing machines are serviced twice a year and the industrial mangle was repaired during Maintenance week.

In the Machine House, the electrical transfer switch had to be repaired due to a small gas leak. In order to protect it from future corrosion, a shed was built around it. The membranes in the Reverse Osmosis system were also replaced and other parts of the plant had maintenance.

Finally, Daniela Trava showed Council the latest resort purchase, a new van with seating for up to 17 people, which will improve the transportation service and cut down on fuel costs.

The Advisory Council meeting

After the tour, Council members met with Dr. Kemil Rizk, one of the Royal Resorts Presidents, Chief Operating Officer Javier Vales, Chief Financial Officer Fernando López, Vice President of Resort Operations Armando Millet and members of their staff in the Bicaci Room.

Dr. Rizk gave a presentation on global travel trends, the Mexican economy and tourism before touching upon sales at Royal Resorts and Grand Residences.

Tourism is a true global force for economic growth and development. It is the world's third biggest export activity, accounting for 10 percent of global GDP and 1 in 10 jobs. Dr. Rizk commented that UN World Tourism Organization year-end statistics for the world tourism industry in 2018 showed a 5.4 percent increase in international travellers for the ninth consecutive year. International tourism receipts increased by 4.4 percent reaching US\$1.7 trillion in 2018, outpacing global GDP.

Higher levels of prosperity are boosting travel and other factors include moderate exchange rate performance, low interest rates, stable fuel prices and accessible airfares, digital technology and the increasing use of eVisas to facilitate movement.

The Mexican economy and tourism

Turning to the Mexican economy, Dr. Rizk explained that President López Obrador's policies have led to some changes. He has pledged to root out corruption and has made new social support programs to help the poor a priority. His administration is also implementing fiscal reforms, a new industrial policy and is committed to the reform and recapitalization of Pemex, the debt-ridden national oil company, and CFE, the Federal Electricity Commission.

The government's fiscal reforms could help fight corruption, stabilize public debt and create space to respond to economic shocks and spending increases generated by the needs of an aging population.

The Mexican peso is relatively stable and the year-end inflation rate is 3.8 percent in 2019, down from 4.9 percent in 2018. Unemployment is around 3.5 percent, however GDP growth was sluggish in 2019 at only 0.9 percent.

The new United States-Mexico-Canada trade agreement (USMCA, the new NAFTA) is in the final stages of ratification, after having been approved by Mexico and the US Senate. The Canadian Parliament will vote upon it in early 2020.

Mexico is currently No. 7 in the World's Top Ten Travel Destinations, welcoming 41.5 million visitors in 2018 (the year-end figures for 2019 have yet to be released). The tourist sector continues to grow, albeit at a lower annual rate of 5.2 percent in 2018, down from an average of 10.9 percent from 2012 to 2017. One of the reasons for this may be the absence of international advertising after the disbanding of the National Tourism Promotion Commission in 2018.

Daniela Trava mentioned that Grand Residences had previously been able to attend trade shows such as the ITLM luxury travel event in Cannes with the support of the Consejo de Promoción Turística at a much lower cost than through The Leading Hotels of the World. The Federal Government is now expecting the private sector to fund promotion initiatives. The Quintana Roo State Tourism Board has stepped up its promotion campaigns for the Mexican Caribbean to compensate for the lack of federal support.

Tourism in the Mexican Caribbean was also affected in 2019 by media reports about security and Sargassum seaweed landings, although the latter is actually a regional problem affecting the Caribbean islands, the US Gulf coast and Florida. Federal and state governments are taking action to address both issues.

Daniela Trava told Council about new initiatives to dispose of the Sargassum that has been coming ashore during the summer in recent years. She stressed that not all beaches are affected and landings occur periodically, not every day.

In 2019, President López Obrador designated the Mexican Navy to oversee the Sargassum eradication program and coordinate with the State and Municipal Governments, oceanographers and marine biologists, conservationists and hotels. Brigades worked to clear seaweed from affected beaches and later in the summer barriers were installed at key points along the coast. The Navy also commissioned the construction of six boats or sargaceras that are designed to collect floating patches of seaweed. One of the boats arrived in Cancun in December.

In addition to boosting beach cleaning efforts, the strategy is to try and gather the seaweed before it comes ashore. Some hotels are investing in floating contention barriers to trap the seaweed or are working with companies that offer the technology and have specially equipped boats to remove the seaweed as it accumulates.

It is important that the Sargassum is disposed of correctly to prevent damage to corals, marine life and water pollution. It must be moved to a specially designated location where it is dried on a special geo membrane that prevents salt leaching into the aquifer.

Daniela Trava mentioned that there are several private sector projects to industrialize the seaweed, for example to generate bioenergy, or, as one Puerto Morelos businessman is doing, using it to produce bricks for construction.

Dr. Rizk continued with his presentation, mentioning that another challenge facing the area in 2019 was the decline in the number of visitors from the United States, a trend that is forecast to continue. Despite an expansion in the number of flights from Europe, Russia and Latin America, the United States is still the Mexican Caribbean's most important market and State Government promotional campaigns are expected to focus on it in order to bring US visitors back.

Additionally, with the development of huge new resorts in Costa Mujeres to the north of Cancún, the Mexican Caribbean is fast approaching the 100,000-hotel room mark. This means more competition for visitors, in which Airbnb is also a factor. This is affecting resort performance and occupancy levels throughout the area.

Fractional industry trends

Dr. Rizk briefed Council on trends in the Fractional Industry and explained that it has not recovered from the financial crisis in 2008. Sales were US\$471 million in 2018, a decrease of -79.5 percent from its peak in 2008, right before the crash. The situation is similar in the Private Residence Club sector with an -88 percent drop in sales since 2007. The exception is an increase in sales performance of 9% in 2018 when compared to 2017.

He explained that the average industry price per share has decreased by -7 percent since 2007 but has increased by more than 15 percent per square foot. Grand Residences list pricing is slightly above the average per 5-week share for units that are larger than the industry norm. However, in terms of price per square foot, it is below the industry average. Club Service Fees are also lower than at other comparative resorts. He concluded by saying that industry pundits still forecast that shared ownership will rebound in the future.

Resort Operations report

Daniela Trava then gave a presentation on Resort Operations during 2019. She explained that 2019 was the first year that the resort closed for Maintenance Week. The next one will be in 2022.

The latest TripAdvisor results show that Grand Residences is currently No. 2 in Puerto Morelos, No. 31 in the Riviera Maya, No. 45 in Quintana Roo and No. 52 overall in the Yucatán Peninsula. In 2019, it obtained three Trip Advisor Traveler's Choice awards given to the best of the best in Mexico in the categories Top 25 Hotels, Top 25 Hotels for Families and Top 25 Luxury Hotels.

In the annual Leading Hotels of the World inspection, which measures more than 1,000 different standards, Grand Residences scored an overall rate of 85.3 percent, up 2.9 percent from 2018. It is ranked 4th out of 9 competing hotels in Quintana Roo. In the Qualtrics guest exit survey it scores 4.65 out of 5.

Daniela Trava mentioned that owner and member occupancy increased in 2019, but the number of rental guests fell by 10 percent. She explained that this was due to a rate war in the area during the year with a number of competitor properties lowering their rates. Grand Residences did not get involved and the policy at the resort is to gradually increase rental rates.

Evelyn Hogue Dowell commented that the perception of owners and members is that All-Inclusive renters are paying proportionally less for their food whereas the owner daily rate for the All-in Grand package is US\$80. She said that some owners and members have reported seeing food wastage and believe that guests are not tipping staff. CFO López responded that this is not correct; All-in Grand package rates for rental guests are always higher than the Owner rate for the All-in Grand package. The package includes a tip percentage that is distributed to the staff and guests are invited to leave more if they wish.

He gave Council more information about the rate war started by six to eight resorts in the area that are Grand Residences' competitors. They are all larger properties with more rooms, restaurants and guest amenities and competition is fierce. The market is very sensitive to rate decreases and even a difference of US\$2 may cause a potential guest to book elsewhere. However, he added that Google Analytics reports reveal that guests who booked at other resorts in previous years are returning to Grand Residences because of the higher levels of service and hospitality. Grand Residences has been fighting to keep rental rates as high as possible to receive guests whose profiles are in keeping with the resort community and that may be future owner and member prospects.



Douglas Bayerlein mentioned that the Advisory Council would like to see more owners at Grand Residences; it is an ownership resort, not a hotel. Dr. Rizk agreed and said that this is a goal they share. He went on to say that the Grand Residences Club Service Fee is lower than the industry average, the units are larger and that it offers more amenities and services than ownership resorts of a similar size.

Expanding on the topic of resort amenities, Daniela Trava commented that the resort added new activities in 2019 for owners, members and their families to enjoy, including cooking classes with Chef Rafael Borbolla and guest chefs, daytime activities and evening entertainment such as a salsa night. Owners and members are entitled to a discounted rate on the Meal Plan if they wish to take it and there is an additional food and beverage discount for owners with five weeks or more. Also new in 2019 are the Pool Recovery station stocked with water and fresh fruit and the Protein Menu, an ordering service exclusively for owners and members, ideal for those who like to cook in their residence.

Returning to her presentation, Daniela Trava described the community work that the resort is involved in. It joined forces with several other hotels in 2019 to give the General Adolfo López Mateos primary school on Rafael E. Melgar Avenue a facelift. Staff painted buildings, classrooms, desks and chairs and made other improvements to give pupils and teachers a better study environment.

During the year, a brigade from the resort also participates in weekly beach and street cleaning campaigns, alternating between the two.

Maintenance projects carried out at the resort in 2019

Daniela Trava then listed the Maintenance and Housekeeping projects carried out in 2019:

- Preventive Villa Maintenance (including maintenance and housekeeping projects, over and above regular upkeep during the year and covers cleaning, painting, varnishing for the walls and furniture, upholstery, and the overhaul of air-conditioning units, Jacuzzis, locks and appliances)
- Fire prevention pump maintenance
- Painting building facades
- Electrical transfer repair
- New sign and entrance to Heaven
- Roof waterproofing for Flor de Canela restaurant
- New coat of varnish for the lobby table in Flor de Canela
- Access ramps and floor tiles replaced in Flor de Canela
- Repairs to the walk-in freezer compressor
- Anti-slip material fitted in a perimeter around the pools as an additional safety measure. An anti-slip product is also applied regularly to the tiles on the pool decks.
- New pool tiles, grouting and railings
- New hand railings in the private pools
- Electrical transformers were checked during the year
- The Front Desk podium was given a new coat of varnish
- Maintenance to the mangle in the resort laundry
- Membranes replaced in the Reverse Osmosis plant
- New Sprinter van

A long-term solution for electricity rates

Given the dramatic increases in electricity rates in recent years and the possibility that they might be repeated in the future, Fernando López explained that Royal Resorts signed a power purchase agreement with a solar energy company in Guanajuato as a long-term solution. Starting

in 2020, it will supply at least 85 percent of all energy needs at Grand Residences and all the other resorts at an average rate of 1.5 pesos per KWh. This will mean energy savings moving forward. The remaining 15 percent will be purchased from the Federal Electricity Commission.

Grand Residences sales strategies

Dr. Rizk then briefed Council on the evolution of Grand Residences. He explained that the launch of the Elite Points membership tied to Grand Residences inventory has been successful and that sales volume has tripled since May 2018. Points are a way for Royal Resorts members to “test drive” Grand Residences at a lower entry price and then add more Points at a later date to suit their vacation needs. The average Grand Residences Points transaction is actually US\$34,554, considerably higher than the entry price of US\$21,000. They have had some equity transfers too, principally from members at The Royal Haciendas who pay the difference to become Points members at Grand Residences. Royal Resorts members currently account for 85 percent of all Grand Residences sales.

Dr. Rizk also touched upon the evolution of the Royal Resorts Signature Club. Since 2013, membership has grown by 20 percent. In October 2019, there were 209 active President’s Circle memberships and 362 active Elite memberships, plus a further 198 new members in 2019, an increase of 120.73 percent.

Signature Club membership offers an array of leisure, lifestyle and destination benefits. Dr. Rizk gave one example, referring to the exclusive online platform called Privileges by Royal Resorts, which is included in all Signature Club memberships. It offers members big savings, discounted rates and a best price guarantee when they purchase travel services and hotels using the platform. They have access to more than 400,000 hotels around the world, cruises, car rentals, 20,000 activities and excursions in more than 1,000 cities worldwide, 29,000 golf tee times, a Wine Club and more. To use it President’s Circle and Signature Club Elite members log in to www.rrsignatureclub.com with their credentials and password.

Grand Residences owners and members who registered for the Royal Resorts Rewards program can now earn Rewards on qualifying purchases when shopping online through Privileges by Royal Resorts. Rewards can also be redeemed to purchase anything on the platform from 75,000 participating online merchants.

Signature Club members can now use Points to book stays at Impressive Resorts & Spas in Punta Cana, the latest addition to the Signature Club resort collection.

Finally, Dr. Rizk briefed the Advisory Council on plans to complete Grand Residences, with the construction of phases 3 and 4 of the resort and additional guest amenities. Management hopes to be able to share additional information with owners and members in the first quarter of 2020.

Dr. Rizk also told Council about plans for a commercial alliance with a US-based hospitality brand to promote Grand Residences and sell points memberships thus tapping into a new pool of prospects and thereby increasing the pace of sales. This alliance is also expected to bring more benefits for owners and members.

2019 Financial report

CFO Fernando López continued the meeting with the presentation of the resort financial statements. He began by acknowledging that Daniela Trava had been able to make savings in 2018 and 2019 by implementing stricter controls on purchasing and inventory.

He gave a brief summary of the 2018 financial statement with year-end figures. Resort Operating Expenses were 3 percent less than budgeted and the Net Income Operation or Net Loss of US\$870,847 was 4.7 percent better than the amount forecast US\$913,724.

The 2019 financial statement was then explained in detail. The Income Statement comparison accompanying this summary (see page 7) shows budgeted and actual (forecast) income and expenses as of September 30, 2019 with estimates to the end of the year. The 2019 budget was prepared using an exchange rate of 18.7783 pesos per dollar but the average exchange rate for the year is 19.33, a variation of 2.94 percent.

Forecast Total Revenue for 2019 is 2.5 percent more than budgeted due to an increase in the Other Income line item of 107 percent.

Total Resort Operating Expenses were 8.6 percent less in 2019 with savings in Housekeeping Services (-9.6 percent), Housekeeping Maintenance (-18.7 percent), Electricity (-17.3 percent), Sports Services (-27.1 percent), Social Activities (-17.8 percent), Gym (-34.7 percent, due to staffing changes and the elimination of the gym instructor position for the afternoon shift) and Fixed Assets and Major Repairs (-31.5 percent), the latter explained by the fact that only half the pools were retiled this year.

General and Administrative Expenses were 2.7 percent more than budgeted.

CFO López then presented the 2020 budget noting that the line item for Electricity is 26.4 percent less than in 2019 due to the new power purchase agreement which comes into effect in June. There is also a 5.1 percent reduction in the Front Desk/Concierge line item, as two staff positions will not be filled in 2020. In contrast, the Fixed Assets and Major Repairs line item increases by 553.1 percent to US\$107,473 to cover projects and purchases needed in 2020, including waterproofing the lobby roof, painting building tiles and the lobby façade and replacing all the villa doorbells. Sports Services shows a 27.1 percent increase and Social Activities a 29.4 percent increase, taking into account one new staff position and expenses from the implementation of additional activities.

The Operating Income budgeted for 2020 shows a positive number for the year of US\$79,621, the first time this has occurred.

Property Taxes are budgeted at 20.9 percent less than in 2019, taking into account discounts for early payment.

CFO López then presented the Management proposal for a 2 percent increase in the Club Service Fee for 2020. He explained that it is important for the resort to start building the reserves needed to pay three months of operating expenses in case of a contingency.

He explained that the Developers are paying half the current Dues income in Club Service Fees, this means that they will be footing half of the US\$6,124,555 budgeted in 2020 plus an additional US\$1,000,000 to cover deficits in the operating costs of resort businesses such as the restaurants and spa.

He commented that the restaurants continue to lose money. Grand Residences owners and members do not dine on property enough to support them and the decline of rental guests in 2019 was a contributing factor. A study of all the Royal Resorts, including Grand Residences, reveals that on average Owners/Members eat one dinner, one lunch and one breakfast per stay at the resort restaurants.

Daniela Trava mentioned that Executive Chef Rafael Borbolla has implemented new menus, theme nights and dish of the month specials so that there is always a new gourmet experience for owners and members to try. He has also developed menus for guests with food allergies or special dietary requirements.

CFO López reiterated that the Grand Residences Club Service Fee is lower than the industry standard and that the resort offers owners and members more amenities than other resorts of a similar size.

The Advisory Council said that they have heard comments from owners and members about the annual Club Service Fee to the effect that it is too high or about the need for annual increases.

CFO López clarified a misconception brought up by the Advisory Council. He explained that rental guests do pay a Resort Fee and taxes. He also commented that rental rates are never lower than the annual Club Service Fee.

Robert Boyd Stephens commented that he now sees that the resort has a path to sustainability through initiatives to cut costs and save money, increase sales and complete the construction of phases 3 and 4.

CFO López explained that historically the Club Service Fees at the resorts have gone up by 2.5 to 3 percent per year. When this does not occur, a larger increase has been needed the following year.

He noted that in 2019, Management and the Advisory Council agreed upon a budget of US\$1.2 million of net loss and the resort was able to reduce that to a loss of US\$614,000. He stressed that costs have been reduced without sacrificing quality or the resort's high standards.

Council approved the Club Service Fee increase of 2 percent. Dr. Rizk commented that completing the resort will help generate new sales, economies of scale and efficiencies.

The annual Club Service Fee for 2020 and the breakdown is as follows:

| CLUB SERVICE FEE 2020 FOR FRACTIONAL OWNERS (Amounts in US dollars) | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Villa | Normal | Normal | W/Roof Garden | W/Roof Garden | W/Roof Garden | W/Pool | W/Pool |
| | 2 Bedroom | 3 Bedroom | 2 Bedroom | 3 Bedroom | 4 Bedroom | 2 Bedroom | 3 Bedroom |
| CSF | 1,859.66 | 2,170.59 | 1,984.04 | 2,294.12 | 2,603.36 | 1,922.69 | 2,232.78 |
| VAT | 297.55 | 347.29 | 317.44 | 367.06 | 416.54 | 307.63 | 357.24 |
| 3% Occupancy Tax | 55.79 | 65.12 | 59.52 | 68.82 | 78.10 | 57.68 | 66.98 |
| Total | 2,213.00 | 2,583.00 | 2,361.00 | 2,730.00 | 3,098.00 | 2,288.00 | 2,657.00 |
| % Increase | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |

POINTS TABLE AND CLUB SERVICE FEE 2020

| 2020 Tier | Platinum+ GRM Points | | Base CSF | Per Point CSF | \$Per Point | CSF | VAT | Occupancy Tax | Total | 2% increase |
|-----------|----------------------|-------|----------|---------------|-------------|----------|--------|---------------|----------|---------------|
| | | | | | | | | | | CSF Per Point |
| 1 | 2740 | 3300 | 189.11 | 0.1471 | 395.11 | 498.32 | 79.73 | 14.95 | 593.00 | 0.2164 |
| 2 | 3301 | 4000 | 225.88 | 0.1471 | 476.00 | 597.48 | 95.60 | 17.92 | 711.00 | 0.2154 |
| 3 | 4001 | 4800 | 289.97 | 0.1366 | 535.73 | 702.52 | 112.40 | 21.08 | 836.00 | 0.2089 |
| 4 | 4801 | 5700 | 346.70 | 0.1366 | 642.85 | 842.86 | 134.86 | 25.29 | 1,003.00 | 0.2089 |
| 5 | 5701 | 6600 | 399.23 | 0.1366 | 763.36 | 989.92 | 158.39 | 29.70 | 1,178.00 | 0.2066 |
| 6 | 6601 | 7500 | 462.26 | 0.1366 | 883.87 | 1,146.22 | 183.39 | 34.39 | 1,364.00 | 0.2066 |
| 7 | 7501 | 8600 | 525.30 | 0.1261 | 927.12 | 1,236.13 | 197.78 | 37.08 | 1,471.00 | 0.1961 |
| 8 | 8601 | 9800 | 525.30 | 0.1261 | 1,063.08 | 1,352.94 | 216.47 | 40.59 | 1,610.00 | 0.1872 |
| 9 | 9801 | 10900 | 546.31 | 0.1261 | 1,211.40 | 1,497.48 | 239.60 | 44.92 | 1,782.00 | 0.1818 |
| 10 | 10901 | 12100 | 556.82 | 0.1261 | 1,347.36 | 1,622.69 | 259.63 | 48.68 | 1,931.00 | 0.1771 |
| 11 | 12101 | 13500 | 593.59 | 0.1261 | 1,495.68 | 1,781.51 | 285.04 | 53.45 | 2,120.00 | 0.1752 |
| 12 | 13501 | 15800 | 614.60 | 0.1261 | 1,668.72 | 1,946.22 | 311.39 | 58.39 | 2,316.00 | 0.1715 |
| 13 | 15801 | | 635.61 | 0.1261 | 1,953.00 | 2,208.40 | 353.34 | 66.25 | 2,628.00 | 0.1663 |

The Advisory Council commented that some owners and members seem unaware of all the benefits that they are entitled to. They recommended adding a list of the services that the Club Service Fee covers and information on the Club Service Fee prepayment service (installments) offered by Interval Servicing Co. to the Owners Area of the Grand Residences website.

The meeting concluded with a presentation by Chief Operating Officer Javier Vales on Royal Uno All Inclusive Resort & Spa, which will open in the location of the former Royal Caribbean in December 2020.

In a private session, the Advisory Council selected Judson Chandler Wyatt to replace retiring member Robert Boyd Stevens.

ECONOMIC AND FINANCIAL PREMISES FOR BUDGET PREPARATION

The Grand Residences operations budget is calculated in pesos and then converted into USD using the estimated exchange rate

Exchange rate

For the calculation of the 2019 Forecast, after nine months of the year, the average exchange rate was expected to be 19.33 Pesos per Dollar. The average exchange rate estimate used in the 2019 budget was 18.7783. This represents a variation of 2.94 percent.

The Banco de Mexico (Mexico Central Bank) survey and the consensus of major financial institutions forecast an average exchange rate of \$19.70 Pesos per \$1USD for 2020. This premise was used to calculate the 2020 budget and represents a 1.91 percent depreciation of the Peso against the Dollar when compared to the exchange rate forecast for 2019.

Cost of living

Another relevant premise taken into account in the preparation of the resort operations budget is the increase in the cost of living. For budgeting purposes

we are considering that the increase in the cost of living in Mexico for our employees will be 4 percent.

Inflation

The majority of our operational expenses will be affected by an inflation rate of 3.48 percent. This estimate is in line with the consensus of the major financial institutions in Mexico and the Mexican Government.

Utilities

Starting June 2020, a solar energy company in Guanajuato will supply at least 85% of our energy needs at Grand Residences at an average rate of 1.5 pesos per KWh. This will mean energy savings moving forward. The remainder will be purchased from the Federal Electricity Commission.



Income Statement Comparison Forecast 2019 vs Budget 2020 (US Dlls)

| 2019 | | | DESCRIPTION | 2020 BUDGET | FORECAST VS BUDGET | | ACTUAL/ INTERVALS |
|--------------------|------------------|---------------|---|------------------|--------------------|----------------|----------------------|
| BUDGET | FORECAST | % | | | 2019 VS 2020 | | |
| | | | | | VARIANCE | % | |
| | | | GENERAL REVENUE | | | | |
| 5,709,903 | 5,819,127 | 1.9% | Dues Income | 6,124,555 | 305,428 | 5.2% | 1,936.92 |
| 5,709,903 | 5,819,127 | 1.9% | Total Dues Income | 6,124,555 | 305,428 | 5.2% | 1,936.92 |
| | | | OTHER INCOME | | | | |
| 2,237 | 3,303 | 47.7% | Guest Laundry | 3,000 | (303) | -9.2% | 0.95 |
| 31,953 | 66,142 | 107.0% | Other Income | 71,400 | 5,258 | 7.9% | 22.58 |
| 34,189 | 69,445 | 103.1% | Total Other Income | 74,400 | 4,955 | 7.1% | 23.53 |
| 5,744,093 | 5,888,573 | 2.5% | Total Revenue | 6,198,955 | 310,383 | 5.3% | 1,960.45 |
| | | | RESORT OPERATING EXPENSES | | | | |
| 727,427 | 657,488 | -9.6% | Housekeeping Services | 742,401 | 84,913 | 12.9% | 234.79 |
| 333,720 | 271,297 | -18.7% | Housekeeping Maintenance | 342,307 | 71,010 | 26.2% | 108.26 |
| 109,278 | 118,939 | 8.8% | Amenities | 126,072 | 7,133 | 6.0% | 39.87 |
| 1,168,371 | 966,791 | -17.3% | Electricity | 711,129 | (255,661) | -26.4% | 224.90 |
| 958,680 | 917,178 | -4.3% | Maintenance & Machine House | 935,338 | 18,161 | 2.0% | 295.81 |
| 91,059 | 83,495 | -8.3% | Water & Sewage | 88,103 | 4,608 | 5.5% | 27.86 |
| 353,584 | 333,070 | -5.8% | Security | 360,794 | 27,724 | 8.3% | 114.10 |
| 266,710 | 273,984 | 2.7% | Front Desk/Concierges | 259,881 | (14,102) | -5.1% | 82.19 |
| 255,846 | 247,892 | -3.1% | Internal Laundry | 257,727 | 9,835 | 4.0% | 81.51 |
| 24,037 | 16,455 | -31.5% | Fixed Assets and Major Repairs | 107,473 | 91,019 | 553.1% | 33.99 |
| 146,449 | 151,509 | 3.5% | Landscaping | 135,551 | (15,957) | -10.5% | 42.87 |
| 108,734 | 79,290 | -27.1% | Sport Services | 100,781 | 21,490 | 27.1% | 31.87 |
| 55,598 | 56,065 | 0.8% | Telephone (Net Result) | 56,373 | 307 | 0.5% | 17.83 |
| 169,085 | 138,912 | -17.8% | Social Activities | 179,758 | 40,846 | 29.4% | 56.85 |
| 19,213 | 19,036 | -0.9% | Operational Services | 19,620 | 584 | 3.1% | 6.20 |
| 300,850 | 309,160 | 2.8% | Resort Insurance | 301,152 | (8,008) | -2.6% | 95.24 |
| 31,367 | 20,472 | -34.7% | Gym | 21,454 | 982 | 4.8% | 6.78 |
| 34,509 | 44,847 | 30.0% | Members Transportation | 47,508 | 2,661 | 5.9% | 15.02 |
| 64,596 | 64,596 | 0.0% | High Speed Internet Connection | 64,924 | 328 | 0.5% | 20.53 |
| 5,219,112 | 4,770,474 | -8.6% | Total Resort Operating Expenses | 4,858,346 | 87,872 | 1.8% | 1,536.48 |
| | | | GENERAL & ADMIN EXPENSES | | | | |
| 512,714 | 520,791 | 1.6% | Management Fee | 552,358 | 31,567 | 6.1% | 174.69 |
| 330,108 | 341,965 | 3.6% | Corporate Services | 336,022 | (5,943) | -1.7% | 106.27 |
| 113,993 | 107,239 | -5.9% | Accounting/Warehouse/IT/Purchasing | 113,265 | 6,026 | 5.6% | 35.82 |
| 49,987 | 67,771 | 35.6% | Administration/General Management | 64,237 | (3,534) | -5.2% | 20.32 |
| 132,814 | 127,481 | -4.0% | Human Resources | 134,991 | 7,510 | 5.9% | 42.69 |
| 4,970 | 3,394 | -31.7% | Other Expenses | 3,588 | 194 | 5.7% | 1.13 |
| 12,612 | 11,628 | -7.8% | Auditing | 11,957 | 329 | 2.8% | 3.78 |
| 32,124 | 41,023 | 27.7% | Membership Services | 44,571 | 3,549 | 8.7% | 14.10 |
| 1,189,322 | 1,221,292 | 2.7% | Total General & Admin Expenses | 1,260,989 | 39,697 | 3.3% | 398.79 |
| (664,342) | (103,193) | -84.5% | Total Operating Income | 79,621 | 182,814 | -177.2% | 25.18 |
| | | | FINANCIAL EXPENSES/INCOME | | | | |
| 20,659 | 26,614 | 28.8% | Credit Card Commission CSF | 27,678 | 1,065 | 4.0% | 8.75 |
| 20,659 | 26,614 | 28.8% | TOTAL FINANCIAL EXPENSES/INCOME | 27,678 | 1,065 | 4.0% | 8.75 |
| | | | Taxes | | | | |
| 388,060 | 419,652 | 8.1% | V.A Tax | 506,087 | 86,435 | 20.6% | 160.05 |
| 72,761 | 78,685 | 8.1% | Occupancy Tax | 94,891 | 16,206 | 20.6% | 30.01 |
| 98,521 | 83,351 | -15.4% | Property Tax & Other Exp. | 65,931 | (17,420) | -20.9% | 20.85 |
| 559,341 | 581,688 | 4.0% | Total Taxes | 666,909 | 85,221 | 14.7% | 210.91 |
| (1,244,342) | (711,495) | -42.8% | Net Income | (614,967) | 96,528 | -13.6% | (194.49) |