



GRAND RESIDENCES

BY ROYAL RESORTS®

ADVISORY COUNCIL MEETING
OCTOBER 27, 2022





General Introduction

GRAND RESIDENCES ADVISORY COUNCIL MEETING, OCTOBER 27, 2022

Advisory Council Members: *Douglas Bayerlein, Hugo Carlos Berlanga, Brian Shecterle, William Scott, Judson Wyatt*

General Introduction

The annual Grand Residences Advisory Council meeting was held at the resort on October 27, 2022. All the Advisory Council members were present.

Before the meeting, the Advisory Council toured the resort with Daniela Trava to see the maintenance projects carried out during the year, these included repairs, tiling and painting in the pool area, work in the restaurants, the villas, repairs to pools in penthouse units, employee offices and the engine room. She also pointed out the drilling holes for wells on the site where Phase 3 & 4 of the resort will be located, in preparation for construction and explained that prior investment in the machine room means that everything is ready to connect the pipes as the project advances.

During the inspection, Council representatives pointed out some maintenance issues on the pool deck and along guest walkways, made suggestions and asked questions about beach cleaning. Daniela Trava explained that the beach at Grand Residences is not protected by offshore coral reefs and as a result surf is rougher, this means that our stretch of coast is not suitable for the installation of a sargasso barrier. Experts have visited the resort to study the feasibility and this is the conclusion. However, an external company with a tractor works daily for eight hours from May to September to remove seaweed when it washes ashore. This can be extended if needed.

On the pool deck, the furniture is being reupholstered, pool umbrella bases are being repainted and some umbrellas and sun beds are being replaced.

Daniela Trava explained that due to the corrosive nature of salt and sand, maintenance is constant at Heaven Beach Bar and when it rains the bar must close as a safety precaution because of the electrical appliances in the kitchen. Brian Shecterle suggested small gauge mesh netting or glass panels as wind breaks which would help reduce maintenance costs. Daniela mentioned that the stools will be replaced and that in high season they will be bringing back the grills on the pool deck to offer burgers and hot dogs. In other restaurant maintenance projects, the tile floor on the terrace at El Faro was replaced with pebble dash floor and the air-conditioning system in both restaurants was dismantled, cleaned and repaired. Wooden window frames were replaced and the wooden bars were sanded, restored and varnished.

In the villa inspection, Daniela Trava briefed Council on some of the projects completed in 2022. They include the replacement of 15 front doors and more will be done as needed. The room welcome amenity was changed to a bottle of tequila with a Grand Residences seal. Hooks were fitted in all the villa closets, linens and duvet covers were changed and rugs and appliances are being replaced as needed. The TV channels have been changed to digital, the Wi-Fi connection has been upgraded and Roku will be added in the villas. The louver privacy screens between the villas were replaced during the year.

Starting in 2023, sofas and deck furniture will be reupholstered with similar color fabrics in a phased project.

In the back of house tour...a: In the back of house tour, Daniela Trava explained that two washing machines had repairs in 2022 and that the ironing machine is due for maintenance in 2023. She added that the laundry will be expanded as part of the Phase 3 & 4 project. She also mentioned that the resort purchased two more SUVs in

2022. In the Machine House she went through the repairs to the reverse osmosis system, the replacement of the membranes and deep cleaning of the filters. She explained that the membranes will have to be changed on a yearly basis. The emergency generator was also repaired and is tested every week to ensure correct functioning.

A list of all the maintenance projects carried out at the resort in 2022 is included in this report.

Advisory Council Meeting

After the resort tour, Council members met with Dr. Kemil Rizk, President, Royal Resorts 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. He noted that in 2021, the global economy began to bounce back after the COVID-19 pandemic with GDP growth rates of 6 percent in the United States, 6.2 percent in Mexico and 5.1 percent in Europe. Although growth continued in 2022, the pace slowed due to the war in Ukraine, which triggered a rise in energy and food prices, exacerbating inflation around the world and impacting the general economic and political climate. The United States GDP growth rate for 2022 was 1.6 percent, 2.1 percent in Mexico and 3.2 percent for Europe and for the global economy.

There are signs of a strong recovery in international tourism with global passenger traffic on the rise, but a return to 2019 levels of growth is being delayed by the challenging economic and political environment. High inflation, a spike in oil prices, rising energy and food prices, war, increasing interest rates and the prospects of a global recession are all playing a role. A UNWTO Panel of Experts survey in September 2022 revealed that 67 percent of respondents believed tourism will return to pre-pandemic levels by 2024 and 21 percent thought it is more likely to be in 2025 or later.

Dr. Rizk said that energy and food price rises have taken a toll on the Mexican economy. GDP is growing at a slower pace, 2.14 percent in 2022, and is expected to slow even more in 2023. The exchange rate has been stable in 2022, as it has been for the last five years, and the rising inflation rate has had an impact on resort operating budgets.

The Mexican government is still pursuing its policies for the revitalization and capitalization of Pemex (the national oil company) and the CFE or Federal Electricity Commission and is discouraging private sector participation in the production of clean, renewable energy.

He commented that trade between the United States and Mexico has increased, and that Mexico is now ranked second after Canada as an export market for US companies, surpassing China.

The Mexican tourism industry has been much quicker to recover than other destinations around the world and has surpassed pre-pandemic levels of air passenger arrivals by 9.3 percent. In 2021, it accounted for 13.1 percent of Mexico's GDP (14.9 percent in 2019), the largest share among all G20 nations, 6.03 million jobs (7.03 million in 2019) and visitor spending increased by 58.6 percent for international visitors and 20.7 percent for domestic tourists.



Cancun has outperformed Mexico in 2022, registering growth of +15 percent in the number of passenger arrivals from January to September when compared to the same period in 2019. Travelers from the United States accounted for 64.9 percent of all tourists in Mexico in 2022, 37.5 percent up on 2021. This is due to the lack of travel restrictions to enter Mexico and the geographical proximity, the easing of US travel restrictions, the widespread availability of COVID-19 vaccines in both countries and the perception that it is safer to travel. However, there are concerns that the state of the US economy and the unstable political climate could impact tourism. Mexican domestic travel has also contributed to the recovery and growth in Cancun and the Riviera Maya.

Turning to trends in the Fractional industry, Dr. Rizk explained that while private residence clubs have bounced back after the pandemic registering sales of US\$224 million, the highest in 10 years, fractional sales remain flat, and the sector has still not recovered. Comparing Club Service Fees, he noted that they have risen across the industry due to inflation (16.7 percent in 2021) and that the Grand Residences Club Service Fee is three percent below the industry average and offers a wide array of upscale services not available in similar properties in the United States. In 2021, the Grand Residences Club Service Fee per square foot was 25 percent less than the industry average and the units are larger.

He then briefed Council on the Grand Residences sales performance. Active Elite membership registered a 30 percent increase and President's Circle members are 4.4 percent up in 2022. The number of Elite Points memberships continues to grow at a faster pace than Fractional memberships and accounts for 96 percent of total sales transactions at this time. Grand Residences sales have now exceeded 2019 levels by 6.2 percent. Dr. Rizk stressed that the sales team does promote the Fractional membership program as it has always done. Both Fractional and Points memberships are offered. Points memberships are more popular, reflecting the current industry trend, and are helping to sell Grand Residences inventory. As of September 2022, 65.6 percent of built inventory has been sold and the rate is expected to pick up.

He also pointed out the differences between Fractional and Points memberships. Fractional owners have residual rights and may eventually sell their fractions if they so wish. In contrast, Points members are not entitled to residual rights and there are no resales. He added that some Points members have subsequently decided to become Fractional owners and have purchased additional weeks and that some Fractional owners have also expanded their portfolio by purchasing Points memberships. Points members invest as much when they join the resort, and they pay a Club Service Fee which is very similar to that of an equivalent fractional week. Furthermore, a Points member who wishes to upgrade one year and stay in a beachfront unit would use all their Points allocation and pay a higher Club Service Fee.

Brian Shecterle commented that some owners think that Points sales are not permitted under the Fractional agreement. Dr. Rizk explained that the Fractional and Points memberships are separate products with different contracts and that they are both registered with PROFECO, the Mexican consumer protection agency. Legally Grand Residences is authorized to sell the two products. Financial Director Fernando López gave the example of The Royal Sands, The Royal Haciendas and The Royal Cancun where there are fixed week memberships and a separate points product with a different

membership agreement. He also stressed that Points are backed up by inventory following the US model. They will never oversell inventory.

Dr. Rizk commented that affiliation with Travel & Leisure and the Club Wyndham benefits – the opportunity to exchange to stay at 120+ resorts across the United States – incorporated to the Signature Club Elite membership has had a positive effect on sales, in terms of the number of transactions and sales volume. To use Club Wyndham, a sales prospect has to buy Grand Residences Points and receive the Signature Club Elite membership. Royal Resorts Points members do not have access to this benefit.

Turning to Grand Residences rental performance, Dr. Rizk noted that resort occupancy reached 2019 levels in mid-May 2021 and has continued to rise since. The forecasts for 2023 are also positive and rental revenue has risen by 33 percent. The Average Daily Rate (ADR) for rentals has been steadily increasing and is now 3 percent higher than in 2019. In 2022 it was US\$515.95 and is even higher during peak season. Management stressed that rental rates are protected.

He explained that The Registry Collection Hotels franchise with Wyndham has helped increase occupancy at the resort by 4.1 percentage points and that its marketing channels book reservations at a higher ADR (5.6 percent higher) than the ADR for all other channels. The perception that the alliance with Wyndham is cheapening the Grand Residences brand is not valid.

Daniela Trava added that all rates are reviewed in all channels by the Revenue Management team to ensure that rates are not lower. She also noted that rates advertised on online travel agency websites such as Expedia are not the final rate you pay. There are hidden costs that are only revealed when the buyer clicks to begin the reservation process. Javier Vales also clarified that Grand Residences does not assign lots of rooms to Expedia and that wholesalers are not used. Over 40 percent of rentals come through the Royal Resorts/ Grand Residences call centers and websites, Expedia accounts for fewer rentals. Dr. Rizk also mentioned that all rentals coming from Expedia and other OTAs are now all-inclusive rentals; the room only rate was removed in 2022.

Council members raised concerns about the Rental program for owners, distribution rates and deposits of units for multiple weeks. Dr. Rizk informed them that Management is working to simplify the Rental program and will look at issues affecting multiple week owners who wish to rent their units.

Regarding quality standards at the resort, Daniela Trava stressed that the resort has kept Leading Hotels of the World standards since leaving LHW and strives to surpass them, in attention to detail, excellence and going that extra mile to create unforgettable vacation experiences. The same guest amenities are offered such as fresh flowers and fruit, luxury bath products, complimentary private transportation and personalized service. She noted that Registry Collection Hotels has adopted Grand Residences standards as its benchmark.

She explained that the resort currently has staff shortages in some departments and that new employees undergo a comprehensive training program to ensure that they deliver service to the highest standards.

In the wake of the pandemic, the hospitality industry in the area has been hit by labor shortages. This is due to several factors: huge resorts have opened recently in the Riviera Maya and in Costa

Mujeres to the north of Cancun and have been recruiting personnel; the Maya Train regional project has siphoned off construction, transport and catering workers as it allows them to work nearer home, and some people simply decided to make career changes or returned to their hometown. The goal at Grand Residences is to continue recruitment and return to full staffing in 2023.

Council members touched upon comments that they received from Grand Residences owners and members about Opera, the Property Management System (PMS) used at the resort. It is the leading PMS for the hotel industry and its use in Grand Residences was a requirement under the strategic agreement with Wyndham Hotels and Resorts through its Registry Collection Hotels franchise. However, there have been compatibility problems causing delays. Management is working on custom solutions to connect it to Genesis, the system used in-house to address check-in and checkout issues reported by owners and members and speed up processes.

Management will also work with the Concierges to make check-in a seamless process and with Front desk to address billing issues for owners and their guests so that they receive separate bills at the end of their stay.

Dr. Rizk also briefed the Advisory Council on the status of the plans for Phases 3 & 4 and the guest amenities still to be added. The objective is to complete the resort as soon as possible. Management is working to achieve that goal after the delays caused by the pandemic. The procedures to obtain the Loan are well advanced and the hope is to have the Loan secured at the beginning of 2023. Contingent on this being in place, and once construction permits have been issued, the plan is to begin construction in 2023. Work is expected to take between 18 and 21 months. In preparation for this, soil mechanics studies have been completed and wells are being drilled on site. Grand Residences has also invested in resort infrastructure in the engine room for Phases 3 & 4.

The Phase 3 & 4 plans include the buildings with reconfigured units II, III, IV to VI, a larger full-service spa with a wet area featuring a steam room, sauna, plunge pools and hot tubs and nine treatment and massage rooms, a two-level gym and a big resort store. There will be a pool snack bar and an area with six BBQ grills for owners to use. Other services include event rooms, a larger resort laundry, underground parking and a wider access path to the beach for tractors and emergency vehicles such as ambulances.

Two additional specialty restaurants – Chuúk, a steak house and Washoku for Asian fusion cuisine –, a lounge bar and an owners lounge with an open-air terrace will be in the lobby building on the second floor in the areas that were occupied by the sales room and original resort store.

The ground floor units in the new buildings will be two-bedroom units with a private pool and kitchen and all the top floor penthouse units will retain their original configuration. The two-bedroom units on the other levels will be reconfigured as three smaller suites with kitchenettes according to the proposal that was presented to owners in 2016, submitted to a ballot and approved by the majority.

Judson Wyatt commented that some owners have voiced their concerns about the reconfiguration and fear that there could be overcrowding. Dr. Rizk explained that although the redesign of Phases 3 & 4 includes 20 percent more keys, the total capacity of the resort stays the same. In the redesign, the master bedroom and living/kitchen areas were converted into king size deluxe suites. Because the living/kitchen areas have two murphy beds, the total

capacity stays the same even with 20 percent additional keys. The two specialty restaurants and pool snack bar will offer additional dining options.

The project also includes plans to build a bike and pedestrian footpath with lights that will stretch from Grand Residences to the entrance of Marina El Cid on the side of the road facing the mangroves.

Grand Residences Operations Report

Daniela Trava began her Operations Report with the resort's Tripadvisor rankings, the resort is currently No. 1 in Puerto Morelos, 35 in the Riviera Maya, 52 in Quintana Roo and 57 in the Yucatan Peninsula in 2022.

Resort occupancy rose during 2022 and the forecast for 2023 is that this trend will continue.

The resort had an overall average rating of 9.07 for 2022 in the Medallia customer satisfaction survey, 4.70 for social reviews and 4.79 on Tripadvisor. It won a World Travel Award for the second year running as Mexico's Leading Hotel Residences and a Wine Spectator award for the sixth year running. Other accolades were received from Booking.com with a Traveler Review Award and a Best for Families rating from Tripsavvy. It also achieved a perfect 100 percent score in the Distintivo H kitchen hygiene and food storage inspections and renewed its COVID-19 safety and hygiene certification with the State Tourism Board.

Grand Residences continues to feature in international travel magazines, blogs and websites. It was mentioned four times during the year by *Forbes* and there were articles in *Travel Daily News*, *Luxury Travel Magazine*, *Travel Weekly*, *Complot*, *USA Today* and *Modern Luxury Manhattan*, among others.

Daniela Trava also informed Council about several new appointments to the management team: Alejandro Lara Guest Service Manager, Luis López Food and Beverage Manager, Claudia Ramírez Owner Service Manager and Nichte Ha Loria Housekeeping Manager. She then listed improvements at the resort in 2022.

Improvements at the Resort in 2022

WI-FI SERVICE

In December 2021, a new internet provider called GigNet began working at the resort. Connection speed went from 4 to 5 MB per device to 30 to 40 MB per device.

- Improved streaming for up to eight devices at a time per villa.
- It can be opened to 100 MB per device on request if an owner has specific needs for video conferencing, etc.
- Fiber optics connection
- Better connectivity speed and capacity
- Improvement in coverage throughout the resort
- Only one network is used
- Easier to adapt new applications and development of new services
- More opportunities for guest communication using different platforms such as phone, TV and apps

TV CHANNELS

Conversion of TV channels from analog to digital.

VILLA DOORBELL DEVICE UPDATE

As a result of the completion of this project, Housekeeping and



Maintenance staff can now focus on more energy saving initiatives in the villas.

NEW DINING OPTIONS

- Taco Tuesday returned in a new setting, Heaven Beach Bar
- BBQ Night on the Beach, featuring different BBQ sauces from around the world
- Nautical Seafood Night at El Faro Grill
- Friday Beach Bonfire Night for families
- Italian terrace dining on the Lobby Bar terrace with live music (adults only)
- Martini & Jazz Night

Daniela Trava also confirmed that the weekly cooking class, afternoon tea and Owners Cocktail are available. Reservations are required. Owners and members who wish to attend these three events can check days and times and confirm their attendance with the Concierge.

PREVENTIVE VILLA MAINTENANCE

In the Preventive Maintenance program for Villas, 30 units were completed in 2022, 10 less than originally planned due to staffing shortages during the year in the Maintenance department. As part of the maintenance program, the air conditioning system is completely overhauled (over and above regular cleaning processes during the year), furniture and doors are stripped, repainted and given a new coat of varnish. Chairs, sofas and upholstery are deep cleaned. Technicians also call every month to check appliances are functioning correctly.

Maintenance projects carried out during 2022

POOLS & JACUZZIS

- Washing of pool filters
- Repair and installation of handrails at the family pool
- Restoration and painting of the spheres in the family pool
- Tile replacement in the family pool
- Junction resurfacing of the family pool
- Repair of pebble floor around the family pool
- Pool electric dashboard maintenance
- Rust repair at swimming pool (Lap pool)
- Rust repair in the shallow part of jacuzzi number 3
- Resurfacing of junctions in jacuzzis

VILLA POOLS & JACUZZIS

- Repairs of cracks in the jacuzzi in Villa 501
- Villa private pool junction resurfacing
- Replacement of lights in villa private pools
- Repairs of cracks in the private pool in villas 521 and 526
- Internal walls and bottom junctions resurfacing for private pools in Villas 101, 119 and 129

VILLA MAINTENANCE

- Repair of conchuela quarry stone floor in villa 129
- Replacement of sinks in villas
- Louvers replacement
- Floor replacement in the check room
- Refrigerator door replacement in room, master suite 218

- Refrigerator replacement in villa 228
- Painting villa railings
- Villa furniture maintenance
- Painting outer wall in villa 522
- Ceiling repair in villa 427
- Fabrication of stainless steel doors for the Penthouse terrace
- Scraping, sanding and varnishing the reception door in villa 101, 102 and 129
- Terrace maintenance in villa 501

MAIN LOBBY & TERRACE MAINTENANCE

- Main lobby dome internal painting
- Scraping and painting of the Front Desk
- Lobby terrace maintenance
- Main lobby ceiling repair
- Replacement of tiles in the main lobby dome
- Painting main lobby façade
- Replacement of lights on the main lobby dome ceiling
- Maintenance for the wooden bar in the main lobby

COMMON AREAS

- Replacement of hallway lights
- Painting walls in the hallways and parking lot
- Door repair in the Check Room
- Replacement of the floor in the Building 8 elevator
- Maintenance of pergolas in all areas
- Repairs to cracked floors in all areas of the resort
- Painting and maintenance of walls and all areas around the family pool
- Painting of the elevators in buildings 1, 11, 10, 9A, 9B, 8 and 7
- Street light replacement and pole painting
- Repairs to the tennis court fence

EMPLOYEE AREA MAINTENANCE

- Painting of walls in the employee cafeteria
- Employee bathroom wall repair and painting
- Painting warehouse walls
- Exhaust fan turbine replacement in the employee bathroom
- Maintenance and painting of doors and hallways in the basement
- Fabrication of casing and base of booster in the employee cafeteria

ENGINE ROOM MAINTENANCE

- Electric motor maintenance in the reverse osmosis system
- Electrical motor maintenance
- Saltwater pump maintenance in the reverse osmosis system
- High pressure pump maintenance in the reverse osmosis system
- Reverse osmosis system filter replacement
- Reverse osmosis system sand filter replacement
- Deep cleaning Treatment Plant Reactor
- Pump maintenance in the sewage plant
- Valve replacement in the sewage pipes
- Maintenance and painting tank water registers
- Hydro Variator leak repair
- Replacement of air elimination valves in the water boiler
- Cleaning of tank heat exchangers
- Boiler maintenance
- Chiller maintenance
- Chilling machine maintenance at the store



- Anti-vibration gasket replacement
- Changes to the pipes in all wells to comply with the new norms issued by CONAGUA, the National Water Commission
- Backup electric generator maintenance
- Replacement of the backup generator radiator
- Replacement of the backup generator battery
- Electric substation and panel maintenance
- Electric panel in building 9A
- Exhaust fan turbine replacement at the Kids Club
- Stationary gas tank valve replacement
- Tightening of anti-vibration screws
- Roller replacement and general maintenance for the Ironing machine in the laundry
- Laundry fan and coil maintenance
- Fire fighting system pump maintenance

The following maintenance projects were also carried out during the year in the restaurants, bar, spa and gym but these are Developer expenses and are not reflected in the Operations budget.

Food & Beverages Department Maintenance

RESTAURANTS

- Air conditioning coil replacement in El Faro Grill
- Air conditioner unit maintenance in Flor de Canela and El Faro restaurants
- Installation of an air-conditioning unit in the pastry kitchen
- Installation of lights on the terrace at El Faro and Flor de Canela
- Repairs to the main door at Flor de Canela restaurant
- Replacement and general maintenance of woodwork in the restaurants
- Restoration of the wooden bar in Flor de Canela and El Faro restaurants
- Replacement of wooden window frames in El Faro
- Restoration of wooden furniture in the restaurants
- Painting of indoor walls in the restaurants
- Painting restaurant facades

KITCHENS

- Replacement of expansion valve in the seafood fridge
- Deep cleaning in the restaurant kitchens
- Replacement of the bakery chimney
- Tray repair for the BBQ grill
- Electrical panel maintenance in Heaven Bar, employee cafeteria and the Flor de Canela and El Faro kitchens

SPA & GYM

- Maintenance work, Spa foyer
- Maintenance work, Gym terrace

With no further questions and comments on the Operations presentation given by Daniela Trava, the next item on the agenda was the Financial Report.

Financial Report

CFO Fernando López and his team presented the financial statements beginning with a summary of the 2021 report with year-end figures. He commented that Resort Operating Expenses were US\$126,618 over budget due to additional expenses during the year.

Turning to 2022, CFO López commented that Housekeeping Maintenance was 8.7 percent over budget because of the additional expense of replacing 15 villa front doors. Housekeeping Services was also 8.3 percent higher. Electricity was 4.7 percent over due to a rise in the rate triggered by higher gas prices. Maintenance and Machine House was 7.4 percent over. The major expenses that were not budgeted for 2022 are the repairs to the reverse osmosis system and the tractor rental for seaweed removal. Water and Sewage was 47.1 percent over budget. Fixed Assets and Major Repairs was 222.3 percent over budget and includes the rights for the Smart Advance platform and replacing the membrane and sand filters in the reverse osmosis system. Line items that came in under budget are Sport Services 20.1 percent less, Operational Services 10.3 percent less and Member Transportation 14.9 percent less.

In General and Administrative Expenses, Other Expenses included four months of expenses for COVID-19 testing until the end of April and is 14.9 percent over budget. Auditing shows a 64.8 percent increase due to a readjustment and the 22.3 percent increase in the Human Resources line item covered the recruitment of a new English teacher.

In Financial Expenses, the 47 percent increase in the Credit Card Commission for Club Service Fees is due to an increase in rates charged by credit card companies.

Daniela Trava commented that the resort had a staff shortfall in 2022 in certain departments with many employees being paid overtime and that it needs to fill vacancies moving forward. She added that in 2020 and 2021 only essential maintenance projects were completed, but that in 2022 they had to do more repairs, and additional work is planned for 2023.

In response to a question about seaweed disposal during the summer season raised by Council and the possible purchase of a tractor for the resort, she commented that it would cost \$5 million pesos to purchase one here in Mexico, plus maintenance and staffing costs and would be very expensive. Based upon a prior cost analysis, the resort prefers to rent a tractor from an external supplier.

Before briefing Council on the 2023 budget, CFO López presented the Management proposal for an 8 percent increase in the Club Service Fee needed to offset the impact of inflation and cover additional expenses budgeted for the year.

He then went through Resort Operating Expenses for 2023 explaining the increases in several line items. Housekeeping Services is 12.8 percent higher than 2022, covering recruitment to fill staff vacancies and a 7 percent cost of living salary adjustment. Maintenance and Machine House is 12.2 percent more than in 2022. Fixed Assets and Major Repairs includes projects such as repainting the lobby and building facades, replacing the entrance signs and waterproofing the tennis courts and reverse osmosis room in the machine house. Social Activities shows a 26.7 percent increase over 2022 to cover two additional team members and offer more evening activities. The 39.9 percent increase for the Gym covers maintenance, new mats and equipment.

Daniela Trava explained that the seaweed collection service will cost more in 2023 due to an increase in the rates charged by the company providing the service. It covers the cost of the tractor rental and the removal of the seaweed from the resort. She also clarified that each line item in the budget is backed by price quotes for the projects to be carried out, it isn't possible to come up with more savings.

CFO López responded to questions about Food and Beverages by explaining that the restaurants, bars and the spa are resort businesses and have a separate budget. The Club Service Fee does not pay the salaries of restaurant staff or waiters.

Dr. Rizk also noted that when the resort is finished economies of scale will occur and it will be possible to build up the resort's cash reserves in the future.

William Scott asked about chairs and sunbeds given the higher occupancy and Daniela Trava explained that they acquire additional chairs each year. Owners and members have priority and can contact the Owner Service Manager for assistance, however Management requests that they notify staff if they are not going to use them so that other guests may do so. She also mentioned a plan to add heating for the lap pool during the winter as part of the Phases 3 & 4 project.

Doug Bayerlein commented that the price of solar panels is going down and that Management should consider solar power. Mr.

Bayerlein added that he would like to know how many panels would be needed, the area required, costs and potential savings, given that electricity is the second largest resort expense after Housekeeping Services. CFO López agreed to study the recommendation and noted that if the project is feasible, solar panels could be installed during construction.

In the discussion of the Club Service Fee increase, CFO López said that given the current economic situation and the impact of inflation on the resort operations budget, it would have been unrealistic not to raise the Club Service Fee. Hugo Berlanga said that an 8 percent increase is understandable due to inflation, but that it is getting more difficult to explain the need for increases to owners and members.

After further discussion, the Advisory Council approved the 8 percent Club Service Fee increase for fractional and points memberships.

**The annual Club Service Fee for 2023 is as follows:
CLUB SERVICE FEE FOR FRACTIONAL MEMBERSHIPS**

C S F 2 0 2 3 CLUB SERVICE FEE FOR FRACTIONAL MEMBERSHIPS							
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	2,148.74	2,508.40	2,292.45	2,651.26	3,008.41	2,221.85	2,579.84
VAT	343.80	401.34	366.78	424.20	481.35	355.50	412.77
3% Occupancy Tax	64.46	75.26	68.77	79.54	90.24	66.65	77.39
Total	2,557.00	2,985.00	2,728.00	3,155.00	3,580.00	2,644.00	3,070.00

Club Service Fee for Points Memberships is on p. 8

CLUB SERVICE FEE FOR POINTS MEMBERSHIPS

Grand Residences CSF 2023				CSF	VAT	Occupancy	TOTAL	CSF price per point
Points	Base	Variable						
2,740	3,300	\$218.53	\$0.1699	\$574.80	91.97	17.23	\$684.00	0.2496
3,301	4,000	\$261.02	\$0.1699	\$690.75	110.52	20.73	\$822.00	0.2490
4,001	4,800	\$335.08	\$0.1578	\$811.76	129.88	24.36	\$966.00	0.2414
4,801	5,700	\$400.64	\$0.1578	\$973.10	155.70	29.20	\$1,158.00	0.2412
5,701	6,600	\$461.34	\$0.1578	\$1,143.69	182.99	34.32	\$1,361.00	0.2387
6,601	7,500	\$534.19	\$0.1578	\$1,324.36	211.90	39.74	\$1,576.00	0.2388
7,501	8,600	\$607.03	\$0.1456	\$1,427.73	228.44	42.83	\$1,699.00	0.2265
8,601	9,800	\$607.03	\$0.1456	\$1,562.18	249.95	46.87	\$1,859.00	0.2161
9,801	10,900	\$631.31	\$0.1456	\$1,729.41	276.71	51.88	\$2,058.00	0.2100
10,901	12,100	\$643.45	\$0.1456	\$1,874.80	299.97	56.23	\$2,231.00	0.2047
12,101	13,500	\$685.95	\$0.1456	\$2,057.14	329.14	61.72	\$2,448.00	0.2023
13,501	15,800	\$710.23	\$0.1456	\$2,248.73	359.80	67.47	\$2,676.00	0.1982
15,801		\$734.51	\$0.1456	\$2,550.42	408.07	76.51	\$3,035.00	0.1921

Brian Shecterle agreed that given the impact of inflation and the need to hire additional staff the increase is justifiable. Moving forward, he requested more information about line items with increases. CFO López suggested that Council have a separate meeting with Daniela Trava before the Advisory Council meeting.

The Advisory Council selected Jeffrey Allen Johnson to replace retiring member Doug Bayerlein.

ECONOMIC AND FINANCIAL PREMISES FOR BUDGET PREPARATION

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

Budget Assumptions

An average exchange rate of \$20.21/US\$1 was considered for the preparation of the 2022 budget; however, it is expected to end the year at \$20.34/US\$1. This represents a slight positive variation of 0.62 percent.

Based on the projections of leading Mexican financial institutions, an average exchange rate of \$20.94 pesos to US\$1 was used for the 2023 budget.

Inflation

For budgeting purposes, an inflation rate of five percent has been considered for 2023.

Cost of living

The increase in the cost of living in Mexico as it affects employees is taken

at seven percent and mandatory wage increases for union employees are also considered.

Water and Sewage

Budgets for 2023 are based on anticipated metered water and sewage charges. The cost of water is offset by the efficiency of the reverse osmosis plants that produce 80 percent of the water used by the resort.

Electricity

The power purchase agreement with Infra, a green energy broker, is now in effect. However, due to rising natural gas prices used for the generation of electricity, energy savings for the resort have not been at the level forecast and this is reflected in the 2023 budget.



GRAND RESIDENCES BY ROYAL RESORTS	NUMBER OF INTERVALS 3,100		
	KEYS 7,200		

Income Statement Comparison Forecast 2022 vs Budget 2023 (US)

2022			DESCRIPTION	2023 BUDGET	FORECAST VS BUDGET		ACTUAL/ INTERVALS
BUDGET	FORECAST	%			2022 VS 2023		
					VARIANCE	%	
\$20,2092	\$20,3354	0.62%	EXCHANGE RATE	\$20,9442	2.99%		
			GENERAL REVENUE				
6,343,660	6,380,610	0.6%	Dues Income	7,082,654	702,043	11.0%	2,284.73
6,343,660	6,380,610	0.6%	Total Dues Income	7,082,654	702,043	11.0%	2,284.73
			OTHER INCOME				
3,000	3,475	0.0%	Guest Laundry	3,600	125	3.6%	1.16
60,000	39,226	-34.6%	Other Income	38,400	(826)	-2.1%	12.39
63,000	42,701	-32.2%	Total Other Income	42,000	(701)	-1.6%	13.55
6,406,660	6,423,311	0.3%	Total Revenue	7,124,654	701,342	10.9%	2,298.28
			RESORT OPERATING EXPENSES				
703,870	761,981	8.3%	Housekeeping Services	859,370	97,390	12.8%	277.22
362,517	394,181	8.7%	Housekeeping Maintenance	409,084	14,903	3.8%	131.96
198,000	174,277	-12.0%	Amenities	198,620	24,343	14.0%	64.07
733,457	767,689	4.7%	Electricity	851,961	84,272	11.0%	274.83
1,020,767	1,096,301	7.4%	Maintenance & Machine House	1,230,355	134,054	12.2%	396.89
79,390	116,793	47.1%	Water & Sewage	106,154	(10,639)	-9.1%	34.24
392,968	370,043	-5.8%	Security	438,532	68,490	18.5%	141.46
262,588	274,225	4.4%	Front Desk/Concierges	280,169	5,944	2.2%	90.38
266,895	269,909	1.1%	Internal Laundry	300,329	30,419	11.3%	96.88
20,312	65,457	222.3%	Fixed Assets and Major Repairs	51,732	(13,725)	-21.0%	16.69
142,492	144,392	1.3%	Landscaping	160,916	16,524	11.4%	51.91
96,699	77,256	-20.1%	Sport Services	85,234	7,978	10.3%	27.49
58,771	69,530	18.3%	Telephone (Net Result)	65,709	(3,821)	-5.5%	21.20
148,081	154,398	4.3%	Social Activities	195,565	41,167	26.7%	63.09
27,289	24,492	-10.3%	Operational Services	22,291	(2,200)	-9.0%	7.19
320,036	308,930	-3.5%	Resort Insurance	305,852	(3,079)	-1.0%	98.66
15,119	15,461	2.3%	Gym	21,633	6,172	39.9%	6.98
90,000	76,593	-14.9%	Members Transportation	87,618	11,025	14.4%	28.26
129,600	129,172	-0.3%	High Speed Internet Connection	129,600	428	0.3%	41.81
5,068,852	5,291,079	4.4%	Total Resort Operating Expenses	5,800,724	509,645	9.6%	1,871.20
			GENERAL & ADMIN EXPENSES				
567,493	565,727	-0.3%	Management Fee	629,302	63,575	11.2%	203.00
352,680	317,448	-10.0%	Corporate Services	305,955	(11,493)	-3.6%	98.70
120,027	124,773	4.0%	Accounting/Warehouse/IT/Purchasing	131,266	6,493	5.2%	42.34
55,340	57,067	3.1%	Administration/General Management	58,534	1,467	2.6%	18.88
83,817	102,532	22.3%	Human Resources	109,693	7,161	7.0%	35.38
113,985	130,932	14.9%	Other Expenses	63,680	(67,252)	-51.4%	20.54
14,265	23,508	64.8%	Auditing	24,767	1,259	5.4%	7.99
53,122	56,849	7.0%	Membership Services	65,056	8,207	14.4%	20.99
1,360,729	1,378,836	1.3%	Total General & Admin Expenses	1,388,253	9,416	0.7%	447.82
(22,921)	(246,605)	975.9%	Total Operating Income	(64,323)	182,282	-73.9%	(20.75)
			FINANCIAL EXPENSES/INCOME				
32,008	47,111	47.2%	Credit Card Commission CSF	53,120	6,009	12.8%	17.14
32,008	47,111	47.2%	TOTAL FINANCIAL EXPENSES/INCOME	53,120	6,009	12.8%	17.14
			Taxes				
563,141	564,389	0.2%	V.A Tax	664,951	100,562	17.8%	214.50
105,589	105,823	0.2%	Occupancy Tax	124,678	18,855	17.8%	40.22
99,679	120,093	20.5%	Property Tax & Other Exp.	130,678	10,585	8.8%	42.15
768,408	790,305	2.8%	Total Taxes	920,307	130,002	16.4%	296.87
(823,338)	(1,084,020)	31.7%	Net Income	(1,037,750)	46,270	-4.3%	(334.76)