



**CONDOMINIO VILLAS AT EMBARC ZIHUATANEJO A.C.
Jun 18th 2020 VILLAS BOARD OF DIRECTORS MEETING**

In Vancouver, British Columbia, Canada at 11:00am (PST) on Thursday June 18th 2020

Present: Robert Reyes, (Via Telecom) Dolores Heisinger (Via Telecom), Scot Hein (via Telecom), Jorge Irra (via Telecom), Will Rogers (via Telecom). Francisco Gonzalez (via Telecom) Areli Fierro (via Telecom).

Meeting called to order at 11:01 am. Roll call: Dolores Heisinger, Scot Hein, Jorge Irra, and Robert Reyes. There is Quorum

Representing the management, Francisco Gonzalez, Areli Fierro, Will Rogers and Jaqueline Silva.

Robert asked for a motion to adopt the Agenda, moved by Dolores Heisinger and second by Scott Hein, none opposed. Motion is carried

Robert asked Will Rogers to proceed with the Audited Financial Statements 2018 and 2019 to get an approval.

Will Rogers commented that we have the final audited statements for both years, the auditors were able to express their opinion that the financials are presented fairly. Starting with 2018 audit, looking in the balance sheet we begin our year with 4.4 million pesos fund balance and by the end of the year, with a 2.6 million pesos fund balance, that brings down to a deficit of 1.7 million in our operating funds and a surplus of 4.3 million in our reserve funds. Changes from our previous year on the balance sheet were an increases in the cash over 640 thousands and a decrease on our related parties' receivable of over 2.2 million

Moving on to the next page to our 2018 Audited statements.

Looking into our income statements we have a deficit of 1.8 million pesos an in breaks down to a 1.7 million in our operating fund and 85 thousand in the reserve fund, our revenue 10.3 million that means 245 thousand more than the previous year.

Our expenses came to 12 million that is 2 million more from the previous year. The main drivers are two things, first the utilities that were very much higher in this year, but when you see the next couple of years you will notice that we get to the same level, and the second is our capital replacement 640 thousand over and that is just the projects we have over that year.

Moving to audited statements for cash flows 2018

You can see our cash position did go up by 650 thousand pesos and that is a result of the deficit of 1.8 million by the decrease on our receivable 2.26 million year,

Scott commented, that he is curious about the insurances for the overall Diamond asset, we have seen a spike in condominium insurances, are resorts seeing similar trends, in terms of insurability, maybe we can discuss that and consider for our future budgets.

Robert commented that we are seeing the same trend, probably not at the same level that is happening in Vancouver but we are aware that rates are going up overall.

Will Rogers commented, we are seeing an increase overall, a lot of the increase we are seeing are specific to some of the properties that are close to a beach or any kind of water, even if you haven't had a hurricane or storm in Zihuatanejo in years and years, just for the simple fact that you are classified as being next to the water you are going to see a jump there, that is the most relevant in this situation here.

Continuing with 2019 audits

Running through our balance sheet, we started with a balance of 2.6 million that we saw at the end of the last year, and then we see a 3.3 million increase during 2019, surpluses 1.1 million on the operating fund and a surplus of 2.2 reserve funds

The main changes over the last year is a decrease of cash 530 thousand Increase on related parties on receivable and payable for 685 thousands increase, and then a decrease in our AP for 475 thousand.

Moving to our income statement

Surpluses of the year of 700 thousands pesos broken down in 1.1 million surpluses in operating funds and a deficit of 440 thousands in our reserve funds

Our revenues came in 10.2 million that is 800 thousand less down than the previous year, that is mainly for the maintenance fees reduction 2019 and that's overseeing there on the reduction of our revenues.

Our expenses come in at 9.5 million that is 2.5 million more from the previous year.

The main drivers of those reductions are a decrease in accounting and that's mainly a re-mapping and reorganization, I don't know if you were aware, back in March 2019 Nancy the accounting manager in Zihua left the company and her roll was absorbed by Maritza's team, what we are seeing here is a less direct cost on the accounting line and more indirect cost and the other line items.

The maintenance lines decrease 480 thousands and that is because Repairs needed in the resort were less in 2019 than in 2018,

Another line item that decreased overall is Admin were legal fees, and tax consulting fees that caused a reduction in the administration in this year

Dolores asked are those last items that you mentioned expected to go back up.

Will commented on the legal fees and tax consulting could potentially depending on particular situations, if we need to consult anything legal, depending on the situation that we are going through.

Moving to Statement Cash Flows, you can see our cash position went down over the course of 2019, 530 thousands as a result of surpluses of 700 thousands increase in our receivables.

Robert asked for motion to approve the Audited Financial statements for the Villas at Embarc Zihuatanejo for 2018 and 2019.

Moved by Scott Hein and Seconded by Dolores Heisinger. No further discussion and no oppose, the motion is carried.

Will Rogers continued with to the Year to date unaudited financial statements.

A couple of things that may look a little odd and that we are working to get some final numbers on is the reserve expenses, so far this year have been split with Embarc, so we are working in the correct allocation. It may populate in the upcoming months when we can get the accurate numbers.

And the second is housekeeping cost and this is specifically to the common areas, we are also working on the allocation, trying to make sure that we get the right numbers with the Villas specific cost.

Revenues are in line with our budget 4.3 million and that is simply a registration of our maintenance fees this years.

Our Payroll is under budget by 133 thousand. We have some saving in maintenance and front desk as well as housekeeping.

Robert Reyes commented that he would like to mention that, one of the mandates that the Mexican government sent out during the closure is the fact that we had to pay our Team members, that is the reason why we don't see much of a decrease in terms of salaries but you would see it more at the expense line.

Dolores asked if the Team Members were paid while they took a furlough.

Robert commented that the term furlough is not probably the best word, in Mexico it is different, but yes they were paid even when they there were out. The Team Members with permanent contract took vacation time or had permission with no salaries and the rest as mandated by the government, were staying at home but they continue receiving their payment.

Will Rogers continued. Moving down to our operating expenses, were we have some savings and the main drive is the reserve mentioned earlier, but also we are pointing out the maintenance line there is a big AC purchase and service that occurred early in the year Moving down we go to utilities because of the closure we see some savings about 20% from the budgeted line item.

Dolores mentioned I noticed that security is over budget.

Robert commented, as expected we tried to maintain the security, and also as mentioned before even with the closure we still have to pay the Team members that is why you are not seeing savings there. The biggest thing we have to remember this was by government mandate.

Dolores stated that she then should not read the maintenance line increase to assume that there was more maintenance done than the normal.

Robert commented, yes there was more maintenance, we took advantage of the Villas not being occupied to do more maintenance but that's not driving the increase, as indicated there was an AC system purchase. We are researching if that is not the final number as you may see the number changing for the June statement.

Will commented the last thing to review is balance sheet, if we go over the last page of that document we can see our assets are under 30 million, our cash equivalents are over 5 million, and related parties receivable are over 24million.

Moving to Villas fees.

Robert indicated that we had received feedback from an Owner who wanted to inquire about a refund on his Villas fees as he was denied access for his reserved week. As we just discussed in the year to date financials we are looking at a surplus based on the savings on the operating expenses. It's important to note that due to the government mandate, all team members must continue to be paid during the closure so the association is not saving much on labor.

Having said that, we will most likely have a surplus and there are really three options that the Board can consider as a refund is not possible nor advised. The first would be to reforecast the costs from July to December and based on costs we can potentially reduce the fees for the last two quarters of 2020.

Robert stated that while this is an option it is one that he and Will do not recommend as it could also put the association in a deficit position if we actually experience greater occupancy or an unforeseen increase in costs and supplies. The second option, if we did have a surplus at the end of the year would be to forward this surplus to 2021 which would help reduce the fees for that year. This option shares any savings that are realized with all the owners albeit that it will be for next year. The third option would be to follow what we have done in the past, which would be to place any surplus to the Capital Reserve.

Robert recommended that we go with the second option which at least will potentially provide lower fees next year for the Villa owners. After further discussion and clarification the Board agreed that the second option would be best for the association.

Over to the next agenda item COVID 19 closure and protocols.

Robert commented regarding the COVID 19 closures, we were hopeful to be able to re-open on June 15th a couple of weeks ago, but as the positive cases continues to increase in Guerrero we had the feeling that the closure will be extended by the government so we went ahead and extended the closure to June 27th, prior to the official announcement, and that is just for your information as we find out that the information from the federal government very last minute, and for anyone traveling to Mexico they would need more notice than a 2 days notification, so while we were waiting for the formal notification for June 15th we went ahead and extend , but they have actually extend to June 30 with a potential re-opening date July 1st but to be re-evaluated.

The way it works in Mexico is if you are in Red it means you need to continue to be closed if you become orange then you can open, for example the other resort we have in Mexico, Cabo Azul they were targeted to reopen July 1st, but they change to orange status last week so they were able to re-open June 16th.

Scott asked if there are flight getting in to Zihuatanejo, Areli confirmed there is an international flight from LAX once a week and flights from Mexico City.

Scott asked how many cases are there in Zihua.

Jorge mentioned that more of the cases are actually in Acapulco and Chilpancingo but there have been a recent increase in the cases in Zihuatanejo as well. We currently have 47 confirmed accumulated positive cases and 50 suspicious cases waiting for confirmation and 5 deaths.

Robert stated, we are ready to open and have implemented the Embarc cleaning control plan, that applies to all the Embarc properties and it covers all the aspects, to protect our Team Members and Members.

Dolores asked, how we are going to access the Destination exchange program. Will that be done by the next couple of months?

Robert commented that it is still in progress, this will be under the Extraordinary Escapes program and not all of our owners are part of this program, so we are trying to program it so that the Villa Owners do not have to buy an Extraordinary Escapes membership. The programmers are working on that but because they still have a lot of team members on furlough in the US they still don't have the manpower to do it, but Areli is following up on that with the programmers to monitor the progress.

Robert asked a motion to adjourn the meeting, moved by Dolores seconded by Scott

Meeting is adjourned