

**CONDOMINIO VILLAS AT CLUB INTRAWEST ZIHUATANEJO, A.C.**

**FEBRUARY 3, 2017.**

**ANNUAL ASSOCIATES MEETING**

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In Vancouver, British Columbia, at 10:11 hrs. on February 3, 2017 at 375 Water Street, Vancouver, BC, there met at the offices of Embarc Resorts, the associates of **CONDOMINIO VILLAS AT CLUB INTRAWEST ZIHUATANEJO, A.C.** (the "Association"), whose names and signatures appear in the attendance list attached to the file of these minutes, to hold a **ANNUAL ASSOCIATES' MEETING** (the "Meeting") of the Association, to which they were duly called.

By unanimous vote of those present, the Meeting was presided over by Mr. Robert Reyes and Enrique Vazquez Romero acted as Secretary.

The Chairman appointed Alizée Mazy as examiner and recording secretary who, after accepting her office, reviewed the Associates Registry Book of the Association and the proxy letters provided by the representatives of the associates, certified that in accordance with Clause 10.6 of the corporate by-laws of the Association, the required quorum was present at the Meeting, and proceeded to prepare the attendance list attached to the file of this minutes.

Based on the certification of the Examiner, the Chairman declared the Meeting legally installed and proceeded to give lecture to the following:

**AGENDA**

- I. Call to Order
- II. Approve Agenda
- III. Election and Appointment of the members of the Board of Directors.
- IV. Approve expenditure from the Capital Replacement Fund.
- V. Approve expenditure from the Contingency Reserve Fund.
- VI. Appointment of special delegates to carry our and formalize the resolutions adopted by the meeting.
- VII. New Business
  1. Review of 2017 Budget
  2. New Trustee – legal requirement for personal information requested
  3. New prospectus document for the Villas
  4. Revision of the Villas Owner's guide
  5. Value of points when converting fractions to points for use at Embarc or other partners
  6. Sale of Villa fractions

VIII. Termination of the Meeting

**APPROVAL OF AGENDA**

MOVED by Scot Hein, SECONDED by Dolores Heisinger THAT the Agenda be approved as presented.

CARRIED

**ITEM ONE.** In connection with the first item of the Agenda, the Chairman explained to those present, the requirement to elect two (2) members to the Board of Directors of the Association due to the fact that Dolores Heisinger and Sandra Ruff has reached the end of their terms.

**RESOLUTION**

"MOVED by Scot Hein and SECONDED by Enrique Vazquez "As there was only one nominee for each position and if there is no objection we will adopt a motion to elect Dolores Heisinger and Pablo Contreras as members of the Board of Directors. Since there is no objection, the appointment of each of the members of the Board of Directors of the Association is hereby ratified."

CARRIED

Based on the foregoing resolution, the administration of the Association will be entrusted to the following persons:

**BOARD OF DIRECTORS**

<b><u>MEMBERS</u></b>	<b><u>POSITION</u></b>
Robert Reyes	President
Pablo Contreras	Secretary
Enrique Vazquez Romero	Treasurer
R. Scot Hein	Director
Dolores Heisinger	Director

**ITEM TWO.** In connection with the second item of the Agenda, the Meeting adopted the following:

**RESOLUTION**

"MOVED by Dolores Heisinger and SECONDED by Scot Hein that the owners of Condominio Villas at Club Intrawest Zihuatanejo A.C. hereby authorize the expenditure not to exceed the amount of **\$726,902 pesos** from the Capital Replacement fund for the following:

1. Dip Pool Refinishing
2. Sliding Doors & Windows Replacement
3. Kitchen Wood beam and Roof Replacement
4. Replacement of Cushion Covers for Dining Table Chairs

5. Mini-split AC Replacement
6. Dishwashers
7. Replacement and Repair of Rooftops at entrance and on terraces
8. Terrace Furniture Maintenance and replacement.

Discussion notes:

None

**ITEM THREE.** In connection with the third item of the Agenda, the Meeting adopted the following:

#### **RESOLUTION**

"MOVED by Scot Hein and SECONDED by Dolores Heisinger that the owners of Condominio Villas at Club Intrawest Zihuatanejo A.C. hereby authorize the expenditure not to exceed the amount of **\$791,905 pesos** from the Contingency Reserve fund for the following:

1. Common Area Handrail Replacement
2. Back-of-House service area improvements
3. Air Conditioning Chiller Surge Protectors
4. Laundry Equipment

Discussion notes:

Marie: There is the project for the fire-hydrant lines going up to the top of Building 2, which is a new project that might start at the beginning of the year. Because we don't have the engineering report/authority yet, there is no cost estimate available.

Robert: Because the project is not included in the agenda to be approved, the board will have to reconvene at a later date once the cost estimate is available to approve this project separately.

Robert: For many projects in the common area and pool resort, Rodrigo Gutierrez has worked with longer-lasting materials such as concrete filled PVC piping instead of bamboo that looks like wood and is extremely durable and termite resistant. This reduces ongoing repairs and costs, which is the focus of the management company.

Scot Hein: How are the ice machines? Does Embarc or DRI conduct operational audits to review what they're accountable for? Are there energy audits done to review overall efficiencies and new initiatives to augment and improve energy consumption?

Robert: DRI has a comprehensive Quality Assurance audit/mystery shopper completed by an independent third party that evaluates over 300 items in terms of service, cleanliness, maintenance, back of house, emergency preparedness and making sure that all equipment is working. These audits are done twice a year and our performance is measured on these scores. We've never had this previously because it was a costly endeavor to conduct similar audits on a yearly basis, but with the size of DRI and their buying power, it's more achievable now from a cost perspective. DRI have stringent standards and they have processes in place to test these. Embarc

consistently scores higher on the post departure surveys compared to other resorts. The team is always striving to see how we can improve on our energy efficiency and we will continue to look for ways to improve.

Marie: Common area ice machines are working fine.

Michael: Is the water that goes through the ice machines purified or is it the same water that comes from the tap?

Robert: The water that comes out of the tap goes through our filtration system and the water that goes through the ice machines also goes through the same filtration system.

Michael: Is the water safe for consumption?

Robert: Yes. To err on the safe side, we always recommend for everyone to use bottled water.

Scot: To provide a context for the discussion of the resolution, add a sentence in the minutes or two about reviewing operational efficiencies and energy consumption.

Robert: Duly noted.

**ITEM FOUR.** In connection with the fourth item of the Agenda, the Meeting adopted the following:

#### **RESOLUTION**

"MOVED by Rocky Barilla and SECONDED by Michael Mylett that Héctor Torres Lopez, Mauricio Tortolero Gonzalez, Greta Eduwiges Robledo Duarte and Alejandro Pedrin Cisneros are hereby appointed special delegates of the Meeting in order for any of them, indistinctly, if they consider it advisable, to appear before the notary public of their choice to notarize these Minutes and to carry out any other act that may be required or necessary in order for the resolutions herein contained to become legally effective."

CARRIED

Discussion notes:

Rocky: Are these Mexican notary publics?

Robert: They are lawyers that represent Embarc and formalize what has been passed in the meeting.

Dolores: To get a better understanding of who they are: They are based in Tijuana, hired by Embarc? Hired by Diamond?

Robert: DRI has hired TP law to represent Embarc in any dealings in Mexico.

Robert: As an HOA, we can go with any other legal team but the buying power of DRI is beneficial to the HOA.

Enrique and Robert: This is part of a legal requirement for any association in Mexico to have the process legally noted and notarized. This adds a layer of protection.

## **ITEM FIVE.**

### **NEW BUSINESS**

#### **Review of 2017 Budget**

Discussion (led by Enrique Vazquez Romero):

The 2017 Villas Association budget reflects a 3.3% increase over the 2016 budget. Here is a summary explaining the significant variances from 2016.

#### **Repairs and maintenance**

As part of the continuous maintenance to the property a 6.6% or \$77,006 expense increase is expected in 2017 when compared to 2016. Carpentry, lock repairs and electrical supplies are mainly the items that generate such increase.

#### **Telephone System**

An IP Phone system was acquired to replace the initial 12 year old phone system that was no longer supported technically. Therefore, 2017 budget shows an increase of \$41,611 or 61.3% when compared to 2016 budget.

#### **Capital Replacement -2017 additional contribution**

An additional contribution of \$230,000 has been included in 2017 Budget to the capital replacement fund to cover the expected expenditure for such year. This contribution represents a \$30,000 or 15% increase when compared to 2016 budget.

#### **Common Area Cleaning & Security**

A \$42,585 increase is estimated for the 2017 budget as result of the expense increase mainly related to the security for the property.

#### **Fire & Safety**

A \$7,122 increase is estimated for the 2017 budget as result of replacement of and acquisition of new security supplies needed in the operations for Villas. These supplies include radios, lamps and other safety equipment

#### **Utilities – Electricity**

Projection of the electricity expense has been decreased to \$103,458 or 11.7%. Our team in Zihuatanejo keeps working in different programs to maximize the use of this utility.

#### **Utilities - Water**

An increase of 7% or \$18,235 MXP has been estimated for the 2017 budget. As previous years, we continue experiencing issues with the inability of the Zihuatanejo Government water supplier to meet our requirements, however, our team keep working to make sure the premises provide such

utility service.

Scot: Out of curiosity, could the proposed 20% tariff lead the government of Mexico to look at US-based companies and implement taxes that might affect next year's budget?

Robert: Many of the products that we purchase, we try and source in Mexico so these won't be susceptible to such a tax. In terms of purchasing goods, some specialized items come from Canada and the US but most is purchased in Mexico. Marie, we would have to research existing suppliers who source products from US and who might pass on these additional costs to the resort.

Marie: Some suppliers are sourcing products from the US and we can see that in the price increases. But we are always looking to source products in Mexico and also reaching out to other DRI resorts to see where they are sourcing their products from.

Michael: Are the dishwashers being replaced and do we have a selection to choose from?

Marie: We haven't chosen a model yet. We are in the process of evaluating what's out there and taking into consideration the usage, fit, and availability of parts.

Marie: We are looking to do two dishwashers per year.

Michael: Are we staying with the white scheme?

Marie: Because the stove and fridge are in white the dishwasher will likely also be white.

Dolores: Suggestion to update the dishes as it may be cheaper to change the dishes than look for dishwashers that fit the plates. These are about 10 years old. Just in case the search for the dishwasher doesn't go well and instead of replacing the dishwasher every two years, we could consider this option.

Robert: We will discuss the different options available with Marie.

### **New Trustee – legal requirement for personal information requested**

Discussion (led by Enrique Vazquez Romero):

Rocky: Since we have Michael and new attendees, let me go over the history on what I believe has been the history of the trusteeship. When we first purchased our properties, there was a trustee, I don't believe it was Bancomer, but subsequently Bancomer became the trustee. Then 1-2 years ago, Bancomer said they didn't want to do anymore trusteeships and so Club Intrawest went and contacted Deutsche Bank to become the new trustee. Is this correct?

Enrique: I went over the trust agreements. The property of Zihuatanejo was acquired in 2002 and at that time the trustee was Scotiabank. Then in November 2002, Scotiabank transferred the trust agreement to BankBoston. In September 2004, Bank of America merged with BankBoston and in

February 2005, Bank of America transferred the trust to AMRO Bank. In October 2008, the Royal Bank of Scotland Mexico (before AMRO) transferred the trust agreement to Bank of America, again. In March 2012, Bank of America transferred the trust agreement to Banamex. All of these transfers happened without us being asked, it was just an assignment.

During 2014 and 2015 some Villa owners requested information to the Villas Association regarding some changes and modifications they wanted to make related to Villas ownership. Banamex was not able to provide straightforward feedback to us. Additionally, in the last quarter of 2015, Banamex notified the Villas Association about its decision to stop business with us regarding the trust business.

First, we talked to Santamarina Y Steta, who at that time were our legal consultants and we identified three options: Banco del Bajio, which is a small local Mexican bank and Deutsche Bank. We talked about the option of working with Scotiabank but the lawyers mentioned that Scotiabank was not an option because they have a lot of delays and we will have issues if we pursue that option.

The first question they asked was: This kind of trust that you're looking for, is it for Villas owners directly or with an association? With an association. A lot of banks dealt with owners directly/foreigners and they had trouble collecting fees and trying to get information was difficult. So, the only business they're looking for are with companies that are in charge of all of that and they deal directly with the association. Same question was asked by both Banco del Bajio and Deutsche Bank. I also tried to look for other options but could not find it.

At the end, even Banco del Bajio did not provide quote because they started to ask a lot of questions about the kind of trust that we had. With our talks with Deutsche bank, it was really straightforward. They were really specific about one point, we can work with this agreement, but we need to run the KYC process because it is a specific requirement by Mexican law.

First of all, the trust business in Mexico is not as big as it used to be, so we have limited options. Secondly, the Villas trust only consist of four units, so we don't have a bunch of financial institutions that we can work with. The other part is, Marie has been working, especially this year, closely with Villas owners and the majority of them have provided their information. I have had a lot of communication with Deutsche Bank and they have provided the information to make sure that the Villa owners are comfortable and that the fractionals that they own are complying with Mexican rules.

Robert: Marie has been chasing owners for the information. As the management company, we feel that we are caught between what Mexico requires and what owners feel is required. We consulted with lawyers and based on their legal opinion, all of the requirements that Deutsche Bank is asking for complies and is well within Mexican law. For us, we are not experts but we are facilitators of what is required to ensure that when owners want to make changes, they are able to do so. If owners choose not to complete the required information from Deutsche Bank, we as the management company can't help if Deutsche Bank can't go through with the transaction because they don't have the complete information. As the management company, we can only ask for

information and if owners choose not to provide their information and that's what Deutsche Bank needs, then there is very little that we can do.

Rocky: We are not laying blame on Club Intrawest or Embarc and we know Marie has handled this and doing her best. Our concern is that when these agreements are negotiated or talked about, there are more interests than complying with Mexican law. We don't just have physical assets, but we have our personal information and assets which can be threatened by any kind of miscommunication or characterized in a trust document that is not correct. We want to comply and have followed Robert's suggestion to put 'N/A' if does not apply. And we did that, and we're getting push back from Deutsche Bank saying that doesn't comply.

Why does Deutsche Bank request owners to complete W-8/W-9? Most of the information required doesn't apply to a lot of us. Everyone wants to comply with Mexico law but what Deutsche Bank has not done is set up guidelines based on amount of risk. As a passive real estate villas ownership, we pose low risk. We want to comply with the bank but their approach is one-size fits all, give us all the financial information and we'll store it some place. We would like someone who can represent both the Villas owners and be a little more accepting on what information we give you. Deutsche Bank does not have a great reputation. We're concerned about identity theft and cyber security and we don't feel comfortable with providing Deutsche Bank with all this information. We need to meet with Deutsche Bank to discuss to allow 'N/A' to be an acceptable entry on the form.

Robert: We would need approval from board to hire legal counsel to speak on owners' behalf. A trustee is needed and there are not a lot options. You need a trustee in order to own property in Mexico. Lawyers have already stated that Deutsche Bank is within Mexican law. 75% of owners have already provided their information. Are the Villa owners willing to spend money to have lawyers represent them and discuss this issue with Deutsche Bank? My view, is that there is a risk that a lawyer can go there and discuss the concerns with Deutsche Bank and they could say that's what they need and if we don't receive it then they cannot act as our trustee. . As Santamarina said, we can take it to Banco del Bajio but because it's smaller, we might have even more issues than with Deutsche Bank.

Michael: Where is Deutsche Bank located?

Enrique: The meeting that I had was specifically in Mexico.

Michael: Can Enrique go to Deutsche Bank and say that 25% have issues with disclosing personal information not complied, but 75% have and can he make that call to accept the N/As on the forms so we can put the issue to bed? My concern is if we put a lawyer in front of them, the relationship becomes an adversarial relationship where instead we can just talk to them and ask if they can show some flexibility on the privacy issue.

Robert: Marie has already asked Cynthia and Alonso, can you speak to this? We had a call with Alonso and we spoke with them already and they said it's a Mexican requirement.



Enrique: As a representative of the company, they asked me for the same information that owners/members have to provide even though I was already talking to them in person. I didn't like having to provide my own personal information as a representative of the company and I understand, but it is a requirement by Mexican law. The lawyers were very clear with me saying that according to Article 115, all financial institutions in Mexico has to run KYC and to provide a lot of information such as my birthday, citizenship and profession. This is according to Mexican law and not Deutsche Bank.

Marie: I've also asked Cynthia and Alonso on several occasions because I keep submitting forms with 'N/A' or a blank and it's not acceptable and it won't go any further. Just to give you a different example of the requirements in Mexico. We had a team member who was carjacked and they took his wallet. He can't get money until he goes to a notary or the government to get official ID, but he has no money because he can't access his bank account. The level of bureaucracy is quite high and it's on every level. We own something in Mexico and we're going to have to follow Mexican law if we want it registered.

Enrique: It's up to the Villa owners. If you don't want to provide the information, we have to make sure you are aware that Deutsche Bank is not going to recognize or issue acknowledgement that you are an owner of the fraction and one of the risks is trying to sell or change ownership.

Rocky: At this point, no need to hire legal counsel. But in terms of negotiating with Deutsche Bank, there has to be somebody there to protect Canadian/US owner interest. I have a question in this management relationship, are you guys agents or do you owe us fiduciary duty in terms of negotiating?

Robert: When you say us, you're including the Board? We as a Board have a fiduciary duty in terms of negotiating. As property management, we have a responsibility to manage the property and we are then agents for the Villas owners.

Enrique: I just want to put this into perspective, KYC is not negotiable, it's a requirement. We can look for other options, but we cannot negotiate the KYC process.

Robert: Our fiduciary duty is to follow law.

Rocky: But not to Mexican law.

Robert: Since we're operating in Mexico then we have to follow Mexican law.

Rocky: Deutsche Bank can ask for all this information, but it's what they ask for specifically. There's no mention of a W-9. Here's what I would ask: I would ask, without attorneys, that Enrique and whoever else is suitable, go to Deutsche Bank.

Enrique: But we've already spoken with them and Marie has done this already.

Rocky: I'm saying that somebody who knows Mexican law, doesn't have to be an attorney, talk to these people and ask why they're asking for a W-9.

Robert: We have lawyers because we, when you ask Enrique, you are assuming that he is a lawyer and he is not a lawyer. We, all three of us have spoken to them about the challenges the Villa owners are having with the extent of the information that is being asked and we've had the discussion and challenged them. We have also consulted with Hector the lawyer from TP Law and he responded that they are well within their reach and they have to follow that. What you're asking for, we have already done multiple times. So if you wish to go further than that, we need to hire legal representation.

Dolores: Representing Villas Owners, people give information and seldom question why. For the 25% of owners who have not completed the information, if they don't complete the information will that stop the process for the rest of the 75% of the owners?

Robert: No, the process has already been completed.

Dolores: It'll be up to me and Rocky to decide whether we will give our information or not. If 75% of owners have already done this, then we're not really representing the owners here at the Board.

Scot: We have an obligation to fill out F-Bar form and the US asks us to disclose everything else. KYC is similar and the US may be more onerous in what they ask for. We're going to fill this out and send this in. But we need to know with confidence that we'll be able to sell our unit if we decide to sell in the future. But I am appreciative and respectful of what Rocky is tabling. I understand why points A, B, C might be challenging. D through to G is tabling the idea of assurance, which doesn't seem unreasonable to me. Given that Deutsche Bank is a corporation, it's a given that it'll be hard to get them to provide that in writing but it's worth trying. And then H relates more to Embarc/DRI whether they have anything to offer, but that might be a separate conversation. Is there any way to take this one more round? Appreciate all the efforts of owners to date.

Robert: Before we propose a motion, we don't mind going to Deutsche Bank, but we can only take it so far. I'm comfortable going to Deutsche Bank one more time to discuss.

Rocky: I have no problem with that as long as there's an extra step taken to protect the owners.

Robert: I would like to propose a motion based on the document that Rocky Barilla has presented to us that Management initiate conversation with DB to address the points in the motion that Rocky presented from points to A-H.

Move: Scot Hein, Second: Michael Mylett CARRIED

Rocky: I'd just like to bring attention to the second item in Rocky's document.

Scot: Please circulate Rocky's handout with the minutes.

### **New prospectus document for the Villas**

Discussion (led by Marie Cummings):

Marie: John Nolan is looking for a prospectus that gives a definite description of what he owns so that should he try to sell it in the market, he has a good definition.

Robert: There is the disclosure. In order to create a new prospectus, it would come at a cost that would be borne by all Villa owners including Embarc members. On behalf of Embarc members, the units in the trust for the Villas that is owned by Embarc Members is owned in perpetuity so a prospectus is not required. There would be no need to sell and therefore no prospectus is required.

Rocky: I have a question, you said in perpetuity? Do owners own in perpetuity, or 50 years, 99 years?

Robert: As an Embarc Member, you own a proportionate amount of all nine resorts. If the Club were to be dissolved, as a Member, you would get a proportionate share of the sale based on the amount of points that you owned. Speaking as a manager of Embarc, to incur legal costs to create a prospectus is not in the interest of the Members as it would not benefit them. Speaking as the Chairman of the Association, I understand what John Nolan wants, but what we could do is I know that he has a legal contact that could look into the prospectus. The suggestion would be to get a quote on what it would cost and go from there.

Dolores: I've had conversations with John Nolan regarding request, but now bringing up the word 'prospectus' I'm not sure what he means by prospectus. I've thought about this often and have come to the conclusion that all the information he needs is in the disclosure document already. A good suggestion would be to systematically pull out the information and put it together into a summary package. What I don't understand and haven't gotten a good answer to the question: What does he really own as a Villa owner?

Scot: Is there anything in the disclosure that needs to be changed because of the acquisition?

Enrique: Yes, it has to be updated legally.

Scot: For the purpose of marketing and selling, I think its individual owner's responsibility to sell their fractions. It would be up to them to cull through the document, it would not be our responsibility as an Association or the Board to come up with the prospectus.

Rocky: My concern is hiring an attorney that we don't know who is associated with a Villas owner. I would rely on EMBARC/DRI recommendation.

Dolores: Back to the question of what does John own?

Robert: You have a fractional ownership in terms of time and the right of use of property in Zihuatanejo.

Michael: The title certificate I have that states my unit and we all have that. So we have a physical document that states what we own.

Dolores: Does fractional ownership imply, fraction of building, land or just time?

Robert: That we'll have to confirm.

Dolores: I think that's what John's looking, something that says you own a building, land or 1/9 of something. If we can hand him that answer, then he'll be able to prepare his own prospectus.

Scot: We clearly own physical asset, and we have that documented.

Robert: We need to quantify the ownership first to see if that will satisfy John Nolan's requirement.

Michael: Has any assignments taken place to pass ownership over the last 12 years?

Robert: No, not yet, and part of the challenge is the trust.

Scot: We need to attach answer to 'what owner owns' to the minutes.

### **Revision of the Villas Owners Guide**

Discussion (led by Robert Reyes):

Robert: Villa owner Jill Voss has presented the discussion items around the change to the exchange program. Is there anything else she would like to request to change?

Dolores: I believe her concerns were very specific to the conversion of points.

### **Value of points when converting fractions to points for use at Embarc or other partners**

Discussion (led by Robert Reyes):

Robert: The reason why the points values are listed the way they are is to protect the value of the Embarc membership as that is who the Villa owners are exchanging with. If a Villa owner is exchanging into the Club, they should not have a better benefit than a Club Member. So it would never be higher than what a Member would pay for that.

Second point, exchange one low week for a high week. Rainy season is not attractive. Occupancy or demand for space for the rainy season has not increased and it has ranged from 27% to 44% for the past 5 years and continues to follow the same. If we were just to accept the low weeks without a high week the challenge we foresee is that Villa owners would just exchange all their low weeks. We would then have an influx of low weeks we can't get rid of to balance inventory for the Embarc members and the partners. That's the reason why that is in place.

Having said that, I did an analysis of the Embarc calendars and what Villas owners can exchange to. An example would be Holiday (highest period) at Whistler where the value a Villa owner would receive for a week in a 2 bedroom is 240 compared to what a week cost at Club which is 280. For a 3 bedroom, it is 350 for Villas owners and 430 for the Club. Again, the Villa owners cannot

receive higher value for their points than what a Club member would receive. The next seasonal period down is Peak (Jan/Feb/Mar) which is prime ski season. Villas owners can exchange into Whistler for 210 for a 2 bedroom and 326 for a 3 bedroom. Owners would have the ability to exchange and still have some points left over. There is value there. You can change a Villa week during winter and go to Whistler, obviously not during Christmas period, you could bank points to do that. I also did further extrapolation with Zihuatanejo and Palm Desert and there are examples where Villas get great value for an exchange. Based on this information I don't agree with the feedback that the Villas owners aren't getting value. Also, we have to remember that, especially with outside partners, we cannot dictate to them how much the Villa weeks should be valued against their weeks. The partners dictate to us what they feel the weeks are valued against their property.

Another point that Jill brought up is that we have to pay \$149 to use points and a fee per night make reservations. The exchange program does not run itself and needs to be managed which incurs costs. Also, Interval International as well as other partners charge a fee too exchange and that cost cannot be passed on to the management company but to the owners using the service.

The guideline refers to a cash hybrid, I'll just explain what that is. When rate options are discussed with hotel exchange partners, there is a cash value on points exchanged. If you go on an exchange with a hotel partner, the points need to be monetized to sell that week to get the money to pay the cash rate to the hotel partner property. For example, if the hotel that you are exchanging to charges \$250 per night but the value of the points is only worth \$200 per night then ( $\$50 \times 5 = \$250$ ) will need to be paid in cash. So \$200 of the nightly rate is paid through your points and then \$250 will need to be paid in cash. It is a hybrid of points and cash to make the exchange reservation. This is very common in the exchange industry and not just with Diamond Resorts International.

"We pay for housekeeping on the Villas week that is exchanged and being utilized." The reason that is, is that when you go on exchange somebody needs to pay for the housekeeping. For example, if you exchange into an Embarc resort, the Members have already paid for the housekeeping. So when Members go into the Villas, they would not expect to pay for that because they've already paid for the housekeeping costs for the week they've exchanged. This would be no different for the Villa owners. You would not be expected to pay for the housekeeping cost at the property you have exchanged into as you have already paid this for the fees for the week you have exchanged.

We will continue review to ensure it provides value while representing the interests of the different ownership groups.

Dolores: Will Villas points be usable for other DRI properties?

Robert: I don't have an answer for that right now but at some point, it will be reviewed. We need to make sure that it reflects value for both entities. Right now, the Embarc resorts are not on the same level as DRI with the exception of a few resorts. Should this change and options become more beneficial to Embarc and the Villas, it will be reviewed. DRI is not going to do anything until its clear Members are comfortable.

**Sale of Villa fractions**

Discussion (led by Robert Reyes):

Robert: For DRI to consider purchasing Villas to be put into Embarc trust, we would need a whole unit. Otherwise it would be hard to manage inventory and we'd face questions from Members asking why they can't book at certain times or for certain fractions. We understand that Villa owners need an exit strategy so we would need to look at who might be interested in selling. At this point, there is no appetite to purchase individual fractions.

Scot: Is this a chicken or an egg? If we put out a request to owners and enough of them respond to form a whole unit would that initiate new conversation with DRI?

Robert: It would start a conversation, it would be a more reasonable conversation to have.

Scot: If there's an appetite for that conversation, why not go ahead and find out who might be interested and next action would depend on who responds.

Robert: We can definitely start that conversation, I just want to be clear that we can't promise.

Dolores: I would recommend having a bit of a more firm response before going back to DRI.

Robert: I'll have another conversation with Sales team to see if they want to purchase a unit.

Michael: The logical buyer would be the Club. We currently have a responsible core group of owners, but there will be a time we will need to pass ownership on. This is a good time to slowly start the process of finding out what options are available.

Scot: Alaska Air flights have been changed and visitors not being able to make connecting flights. I'm wondering if there is a larger group that gets Alaska's attention, perhaps. I'm curious if there has been any formal correspondence to Alaska to get their attention to say that this one hour change has put a hardship on members wanting to go to Mexico. Anything further than can be done would be much appreciated.

Marie: We've taken it to the hotel association, they've had a conversation with them and even though we haven't received a firm response yet, it's certainly in the works. This is for flights from Ixtapa and Zihuatanejo.

Marie: Past month or so, some people have approached me about Villas owners who might want to sell. Since some members have expressed their desire to sell, I've been putting the interested parties in touch with them. Not sure if Dolores or Scot would like to find out other owners' intentions and I could pass names on to them.

Robert: We discussed that I'll speak with DRI first in terms of purchasing a whole unit.

Rocky: Guidelines say DRI has the right of first refusal.

Dolores: One last statement before we terminate the meeting. Marie, we are very grateful for all the work you've done on the KYC forms. We know it's been a lot of work, and it was never our intention.

Scot: Owners appreciate the attentive nature of service and personal touch provided by Robert and other staff at the resort.

There being no other matter to discuss, the Meeting was suspended for the time necessary to prepare these Minutes

MOVED by Scot Hein, SECONDED by Dolores Heisinger that the meeting be terminated.

CARRIED


To the file of these minutes, there are attached:

- a) Attendance list;
- b) Certification of the Examiner; and
- c) Proxy letters.
- d) Capital and Contingency Reserve document
- e) Motion by Barilla & Esposito?

The Meeting adjourned at 12:13 p.m. on February 3, 2017.



Robert Reyes  
Chairman



Enrique Vazquez Romero  
Treasurer

Motion by Barilla and Esposito:

- 1) That Embarc/Diamond renegotiate the information requests from Deutsche Bank to tailor the information specifically to Mexican law within the next sixty days or as soon as practicable:
  - a. That Deutsche Bank justify specifically each item requested.
  - b. That the response "Non-applicable" be accepted as a request answer.
  - c. That requests for W-9's, 1099's, and income tax returns, etc. are beyond the scope of a legitimate request by Deutsche Bank.
  - d. That Deutsche Bank give assurances that all information and requests have the most secure cyber and physical safeguards. That Deutsche Bank provide to villa owners on a regular basis a notice of disclosure for requested information.
  - e. That Deutsche Bank give assurances that all information will not be used internally or given/sold to third parties for marketing or promotional purposes.
  - f. That Deutsche Bank give assurances that its information requests do not violate U.S. and Canadian laws.
  - g. That Deutsche Bank provide a copy of the trusteeship agreement to all villa owners.
  - h. That Embarc/Diamond give assurances that the financial and tax status of the villa owners will not be adversely affected.
- 2) That Embarc/Diamond act as the fiduciary agent in carrying out its responsibilities on behalf of the villa owners and act with due diligence in this regard.
- 3) That Embarc/Diamond seek out other institutions to act as the trustee on behalf of the villa properties and owners within the next ninety days or as soon as practicable. And if the responses from Deutsche Bank to #1 of this Motion are not satisfactory, to terminate that relationship and employ a replacement trustee.

Rationale:

- 1) Mexico is concerned about money laundering. It enacted laws to control and prohibit this practice.
- 2) Deutsche Bank and all other financial institutions in Mexico are trying to comply with these laws. They are collecting information from clients that is intended to comply with these laws.
- 3) The Villa owners are concerned about the scope of the financial information collection. The concern is that the scope of the requests is too broad and overreaching.
- 4) The Villa owners are concerned about their privacy and confidentiality rights in the financial information collection. The concerns are that privacy rights are being violated and that financial information may be given or sold to third parties or used internally for marketing purposes.
- 5) The Villa owners are concerned about identity theft. The concern is that financial institution databases are being hacked and that people are having their identities and assets stolen.
- 6) The villa owners are concerned about any tax consequences as a result of the latest trusteeship agreement. The trusteeship agreement may have triggered some unintended tax consequences for Canadian and U.S. villa owners.





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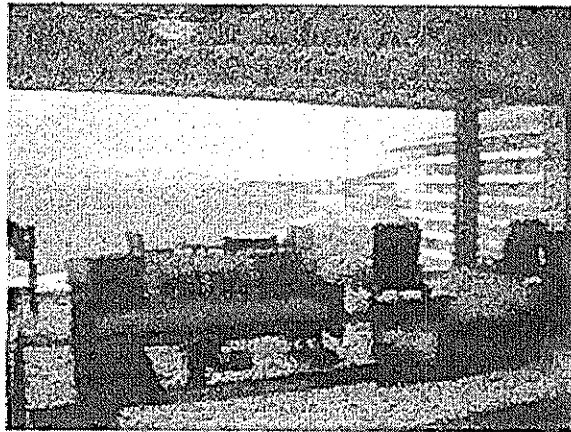
## As Foreign Property Owners, What Rights Do You Have Under Mexican Law?

Posted on January 31, 2017 by chief

**Given New USA Policies – Could I Lose My Property in Mexico?**

By: Agustin Galindo, Attorney at Law\*

During these times of economic and political changes, many foreign investors are worried about losing their real estate properties in Mexico as a reprisal to current USA policies against Mexican illegal immigrants and threats of governmental retaliations against companies that invest in Mexico (i.e., Carrier, Ford or General Motors for example).



*Many USA citizens and other foreigners have invested in second residences, vacation property, or own hotels or Bed & Breakfast inns in Mexico. Other foreigners live in Mexico full-time and own property.*

My response as a Mexican attorney: If you are a property owner in Mexico, whether your property is on the border, coastline or interior; or whether you own it through a bank trust, directly, or through a Mexican corporation; your ownership and possession are protected by one of the most essential guaranties of the Constitution of Mexico (Article 14), that restricts the retroactive application of any law and provides for due process of law.

Thereby, in accordance with the Mexican Constitution, if you are a property owner in Mexico, regardless of the location or type of ownership (bank trust, direct, or through a Mexican corporation), if any new law is issued or the current laws are amended to restrict such ownership, that law or amendment cannot be applied in a retroactive manner. In addition, the Constitution provides that no one can be deprived of ownership or possession without following a legal process before a competent court in accordance to the current rules of procedure.



Again, to summarize your rights as a foreigner under the Constitution of Mexico:

**If You Own Property through a Bank Trust:** Property that is located on the border or shoreline in Mexico (technically named "restricted zone") can only be owned by a foreign individual through a bank beneficiary trust with duration of 50 years with the possibility of extension in accordance with the Foreign Investment Law and its regulations. Therefore, even if such laws are amended or abrogated, the Mexican Constitution gives you the right to maintain your beneficiary trust rights over property owned in this manner.

**If You Own Property Directly:** Property that is located in the interior of the country can be owned directly by a foreigner. In this case, under the Mexican Constitution, your ownership cannot be restricted in any manner, and you will be able to keep such ownership until you transfer it, sell it, or will it to others.

**If You Own Property through a Mexican Corporation:** Another way for a foreigner to own property in Mexico is by owning shares in a Mexican corporation, and that Mexican corporation owns the property; whether it is on the border, shoreline or in the interior. In the case of owning shares of a Mexican corporation that owns property, such share ownership cannot be restricted, and you will also keep its ownership until you transfer such shares.

**My Advice:** Don't be worried about your property rights and investment. Just make sure you have all papers and titles in place.

For your reference, below please find a transcript of part of Article 14 of the Mexican Political Constitution:

*"Article 14. No law shall have a retroactive effect against an individual.*

*No one may be deprived of his/her freedom, properties, possessions or rights, unless a process before the competent court is carried out, wherein all essentials formalities intrinsic to the procedure are fulfilled and pursuant to the laws issued prior to such fact..."*

**About the Author:** *Agustin Galindo is the director of Galindo Abogados, [www.galindoabogados.com](http://www.galindoabogados.com) in Zihuatanejo. You can contact him at [galindoabogados@gmail.com](mailto:galindoabogados@gmail.com).*