

General Introduction

ADVISORY COUNCIL MEETINGS, OCTOBER 23-27, 2023

Advisory Council members for The Royal Sands and The Royal Haciendas attended a general meeting on October 23, 2023, at The Royal Sands.

President of HICV Mexico and Royal Resorts Fernando López greeted them and introduced members of the Management team and Holiday Inn Club Vacations representatives Lesley Nau, VP of Finance, Carlos Ramos VP of Finance, Nick Pestillo VP of Member Services and Michael Thompson, Senior Vice President and General Counsel.

The meeting began with an overview of Holiday Inn Club Vacations. The company story begins with Kemmons Wilson, who founded Holiday Inn® Hotels in 1952 and was hailed by *Time* magazine in 1972 as “the innkeeper of the world.” In 1979, Holiday Inn was sold to the future IHG®. In 1982, Kemmons came out of retirement to open Orange Lake Resort and Country Club, the company’s flagship resort in Orlando. In 2008, Orange Lake Resorts and IHG® came together to create Holiday Inn Club Vacations® (HICV).

By 2019, the HICV resort network had grown to 28 and the company signed a 100-year strategic agreement with IHG® Hotels & Resorts.

Holiday Inn Club Vacations has more than 8,000 units in the U.S. at resorts throughout the country. Through IHG and RCI® and Interval International® exchange networks, its 350,000 members also have access to over 13,000 hotels and resorts around the world.

Holiday Inn Club membership offers the opportunity to stay at resorts in the U.S. and enjoy different travel benefits. However, Royal Resorts members who are happy with their membership as it is do not have to do anything, their rights remain the same. Points members continue using Royal Resorts Signature Club for their vacation needs.

Turning to Royal Resorts, two new specialty restaurants and a lounge bar are planned at The Royal Sands and are in the design and approval process. This is part of a planned HICV US\$12M investment at the resorts which will also include certain safety additions to comply with IHG brand standards, interior and exterior renovations, and additional capital expenditures.

Lesley Nau then briefed Council members on the economic headwinds that are impacting resort operations.

The annual inflation rate was 5 percent as of September 2023, down from a record 9 percent in 2022; however, it is not expected to change much in 2024.

On staffing and wage pressures, she noted that the unemployment rate in Mexico is at 2.88 percent, a record low. The tourism industry is one of the country’s principal economic powerhouses, and according to the 2022 Economic Impact Report (EIR), it will generate more than 2.7 million new jobs over the next decade.

Minimum-wage workers received a mandatory 20 percent raise on January 1, 2023, and another mandatory rise that may be up to an additional 20 percent, is expected for 2024. The 2024 budget also includes a cost-of-living wage increase for team members (see Budget Assumptions). Amendments to Federal Labor Laws increasing employee vacation days come into effect in 2024, driving increases in vacation bonuses and additional expenses when hiring new employees. New rules established by the Federal Labor Law on renegotiation of collective bargaining agreements are also causing more pressure to raise salaries and benefits for unionized employees. Furthermore, additional Federal Government initiatives such as reducing the weekly work hours to 40 and increasing the mandatory days of rest per week

for employees to two may lead to higher labor costs in 2024.

Turning to exchange rate fluctuations, the peso’s value has soared in part due to high interest rates and foreign direct investment increases, which were up by 50 percent in 2023. Mexico is now the number one trading partner with the United States, overtaking China and Canada.

Royal Resorts Club Service Fees are paid in U.S. dollars, whereas most expenditures (such as utilities, supplies and team member salaries) are paid in Mexican pesos. As the peso strengthens, the collected Club Service Fees pay for less expenses than budgeted for, impacting resort finances. YTD, the peso is almost 16 percent stronger versus the dollar in 2023.

In 2023, in response to the increased occurrence of devastating weather conditions in the region, and worldwide, Royal Resorts acquired hurricane insurance and expanded property insurance coverage to “catastrophic damage” coverage, to properly protect the members, the resorts, and their related assets. The cost of the new hurricane insurance policy is included in the 2023 financial statements and factored into the 2024 budgets.

Javier Vales concluded the meeting with a Resort Operations presentation, briefing Council members on occupancy levels at the resorts and in Cancun and the Riviera Maya. He noted that hotel sector expansion and the Maya Train project are still contributing to labor shortages in the area.

Guest satisfaction levels are high at all the resorts, although staffing challenges and beach erosion at The Royal Haciendas caused a dip in the perception of the overall resort experience in 2023. Lastly, the Royal Resorts Foundation raised US\$100,000 in 2023 for the employee relief fund, environmental, health, social and education causes.

NOTES RELATING TO THE ADVISORY COUNCIL REPORTS

Budget Assumptions

An average exchange rate of \$20.94/US\$1 was considered for the preparation of the 2023 budget; however, it is expected to end the year at \$17.68/US\$1. This represents a negative variation of 15.61 percent.

Based on the projections of leading Mexican financial institutions, an average exchange rate of \$18.20 pesos to US\$1 was used for the 2024 budget. This represents a 2.98 percent depreciation of the peso against the dollar when compared to the exchange rate forecast for 2023.

For budgeting purposes, an inflation rate of five percent has been considered for 2024. Inflation has a cumulative effect on payroll expenses and the 2024 budget includes a cost-of-living salary adjustment of 5.5 percent for team members. A possible minimum wage increase is also considered.

Water and Sewage

Budgets for 2024 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 resorts.

Electricity

The power purchase agreement with Infra, a green energy broker is in effect and bringing some energy savings for the resorts in 2023. Infra is now providing 90 to 95 percent of our energy needs, more than the 80 percent it is required to supply by contract.