Canadian Pacific Hotels & Resorts Inc.

1998 Annual Report

LOOKING BEYOND OUR BORDERS

SINCE 1886

CANADIAN PACIFIC HOTELS

	HOTEL	LOCATION	ROOMS
▲	Chateau Whistler Resort	Whistler, BC	558
▲	Jasper Park Lodge	Jasper, AB	438
▲	Chateau Lake Louise	Lake Louise, AB	497
▲	Banff Springs	Banff, AB	770
▲	Le Château Montebello/Kenauk	Montebello, QC	238
▲	Le Château Mont Tremblant	Mont-Tremblant, QC	316
▲	Le Manoir Richelieu	Charlevoix, QC	405
▲	The Algonquin	St. Andrews, NB	238
▲	Scottsdale Princess	Scottsdale, AZ	650
▲	Acapulco Princess	Acapulco, Mexico	1,019
▲	Pierre Marques	Acapulco, Mexico	344
▲	Hamilton Princess	Hamilton, Bermuda	413
▲	Southampton Princess	Southampton, Bermuda	597
▲	Glitter Bay	Barbados	70
▲	Royal Pavilion	Barbados	75
▲	The Empress	Victoria, BC	474
▲	Hotel Vancouver	Vancouver, BC	552
▲	Waterfront Centre Hotel	Vancouver, BC	489
▲	Vancouver Airport Place	Vancouver, BC	413
	(opening October, 1999)		
▲	The Palliser	Calgary, AB	405
▲	Hotel Macdonald	Edmonton, AB	198
▲	The Lombard	Winnipeg, MA	350
▲	Royal York	Toronto, ON	1,365
▲	Skydome Hotel	Toronto, ON	346
▲	Château Laurier	Ottawa, ON	425

	HOTEL	LOCATION	ROOMS
▲	The Queen Elizabeth	Montreal, QC	1,020
▲	Le Château Frontenac	Quebec City, QC	613
▲	Hotel Newfoundland	St. John's, NF	301
▲	The Fairmont Copley Plaza Boston	Boston, Massachusetts	379
▲	The Fairmont Chicago	Chicago, Illinois	692
▲	The Fairmont Dallas	Dallas, Texas	550
▲	The Fairmont New Orleans	New Orleans, Louisiana	700
▲	The Plaza Hotel	New York, New York	806
▲	The Fairmont San Francisco	San Francisco, California	596
▲	The Fairmont San Jose	San Jose, California	541
▲	Delta Pacific Resort and Conference Centre	Richmond, BC	438
▲	Delta Vancouver Airport	Richmond, BC	415
▲	Delta Vancouver Suites	Vancouver, BC	227
▲	Delta Pinnacle	Vancouver, BC	443
▲	Delta Whistler Resort	Whistler, BC	292
▲	Delta Whistler Village Suites	Whistler, BC	207
▲	Delta Silver Star Club Resort	Vernon, BC	144
▲	Delta Bow Valley	Calgary, AB	398
▲	Delta Calgary Airport	Calgary, AB	296
▲	Delta Lodge At Kananaskis	Banff, AB	321
▲	Delta Edmonton Centre Suite Hotel	Edmonton, AB	169
▲	Delta Edmonton South, Hotel and Conference Centre	Edmonton, AB	237

HOTEL	LOCATION	ROOMS
▲ Delta Bessborough	Saskatoon, SK	225
▲ Delta Regina	Regina, SK	255
▲ Delta London Armouries	London, ON	245
▲ Delta Meadowvale Resort and Conference Centre	Mississauga, ON	374
▲ Four Points Toronto Airport	Mississauga, ON	296
▲ Delta Toronto Airport	Toronto, ON	250
▲ Delta Chelsea	Toronto, ON	1,591
▲ Delta Toronto East	Toronto, ON	386
▲ Delta Ottawa Hotel and Suites	Ottawa, ON	328
▲ Delta Montreal	Montréal, QC	453
▲ Radisson Hotel Montreal Centre	Montréal, QC	711
▲ Delta Sherbrooke Hotel and Conference Centre	Sherbrooke, QC	178
▲ Delta Trois-Rivières Hotel and Conference Centre	Trois-Rivières, QC	159
▲ Delta Brunswick	Saint John, NB	255
▲ Delta Beausejour	Moncton, NB	310
▲ Delta Halifax	Halifax, NS	300
▲ Delta Barrington	Halifax, NS	202
▲ Delta Sydney	Sydney, NS	152
▲ Delta Prince Edward	Charlottetown, PE	211
▲ Delta St. John's Hotel and Conference Centre	St. John's, NF	276
▲ Delta Orlando Resort	Orlando, FL	800

→ At Canadian Pacific Hotels, our borders now extend across North America and the Caribbean, with a portfolio that includes city centre hotels, heritage resorts and warm weather destinations.

Canadian Pacific Limited

↓

Canadian Pacific Hotels & Resorts Inc.
100%

↓

Canadian Pacific Hotels Corp.
100%

Legacy Hotels REIT
34%

Delta Hotels & Resorts
100%

Fairmont Hotels & Resorts
67%

SINCE 1886
CANADIAN PACIFIC
HOTELS

➔ **Canadian Pacific Hotels & Resorts** has been providing hospitality to travellers from around the world for over a century. Since we opened the doors to our first railway dining station in the Canadian Rockies in 1886, our mission has been to earn the loyalty of our guests by consistently exceeding their expectations for personal service and warm hospitality. As we approach our second millennium, our goal is to use our experience and management expertise to become an international leader in the luxury and first class segments of the hotel industry. We have already established a presence in new markets and new destinations, and are poised for future growth. As we look beyond our traditional borders for new opportunities, one thing will remain constant: our commitment to offering service excellence in distinctive surroundings.

Letter from the Chairman

It has been an exciting year for Canadian Pacific Hotels. The past twelve months have seen the transformation of our company from a leader in the domestic marketplace, to one that is poised to enter global competition in both the luxury and first class hotel sectors.

First, we consolidated our position within Canada with the purchase of Delta Hotels. Then we looked beyond our traditional borders and acquired Princess Hotels, giving us an entry in to the warm-weather resort market. But 1998/99 will be remembered most as the year we combined a century of hotel experience with unparalleled assets to create a newly expanded player in the world of luxury hotel management: Fairmont Hotels and Resorts.

In 1998, for the fifth consecutive year, Canadian Pacific Hotels achieved record revenues and operating profits. Revenues under management amounted to $1,214.6 million, compared to $741.4 million in 1997. Operating income grew by $11.6 million or 8.5%, despite the absence of operating profit from 11 business hotels which were sold to Legacy Hotels Real Estate Investment Trust ("Legacy") in November 1997. The operating profit of these hotels now owned by Legacy was $56.2 million in 1997. Net income increased from $72.8 million in 1997 (excluding a one-time after-tax gain of $99.8 million relating to the creation of Legacy) to $82.8 million, an improvement of $10.0 million or 13.7%. Revenue per Available Room ("RevPAR") for the current portfolio of assets increased by nearly 9% over 1997.

The Canadian Industry

The Canadian hotel industry remains strong as demand continues to outpace supply. With the exceptions of Vancouver and Calgary, few full service hotels are being built in city centres across Canada. The level of the Canadian dollar is luring American visitors in record numbers and giving Canadians an incentive to visit their own country while on vacation.

International Trends

Travel and tourism is the world's largest and fastest growing industry. According to the World Travel and Tourism Council, receipts from international tourists will grow at an average of 5.7% per year over the next two decades. Leisure travel emerging from the North American marketplace will be positively impacted by the baby boomers, who are well educated, highly selective and quality driven.

Since 1993 the luxury segment of the hotel industry in the United States has consistently outperformed the industry as a whole. According to Smith Travel Research, this segment has shown average annual increases in RevPAR of 6.7% between 1993 and 1998 compared to 5.1% for the industry overall. Annual supply growth in this segment over the last three years has averaged 2.7%.

Our Growth Strategy

While it has been an exciting time of transition and acquisition, all of our actions throughout the year were part of a well considered growth strategy. Our goals were (and remain) threefold. Firstly, to optimize the performance and value of our original assets and invest for success; secondly, to consolidate and protect our leadership position in the Canadian market, and finally, to seek out international growth opportunities.

In order to ensure long-term competitiveness, we continue to invest in and expand our Canadian asset base. In June, 1998, the company entered into a partnership with Loto Québec and the Fédération des Travailleurs de Québec (FTQ) to acquire Le Manoir Richelieu. A $140 million renovation and expansion plan has transformed this beloved landmark into one of the most magnificent heritage resorts in Canada. Le Manoir, which reopened its doors in June of 1999, now boasts a casino, spa, golf course and 405 fully refurbished rooms.

Construction at the Vancouver Airport Place, located in the international terminal at Vancouver International Airport, is on schedule for an October 1999 opening. The $65 million property will be one of the finest airport hotels in North America, offering guests an unparalleled environment of luxury and personalized service.

The Banff Springs will soon have a new 8,000 square foot lobby that will create a "sense of arrival" commensurate with its international reputation. The $54 million project, started early in 1999, will divert motor coaches away from the existing lobby to a separate entrance, minimizing noise and congestion. By 2001, the old lobby will be converted to a great hall, allowing guests to relax and enjoy the scenic view. The kitchens, which were built at the turn of the century, will be expanded and equipped with state-of-the-art facilities. The Rob Roy restaurant will be reduced in size to an exclusive, 80-seat fine dining room offering the best of Canadian cuisine to guests from around the world.

At the Chateau Lake Louise, efforts are ongoing to obtain the necessary approvals for a meeting facility. The Chateau Lake Louise has set company-wide standards in the area of environmentally sensitive meetings and has created a new "Eco-Meet" product which has been adopted chain-wide.

The popular Benihana restaurant at the Royal York re-opened its doors in December 1998, after a $2.7 million refurbishment. The restaurant now has a dedicated entranceway and improved kitchens. At the SkyDome Hotel, after assuming management of the food and beverage outlets in May 1998, we proudly introduced a fresh new menu focussing on Canadian cuisine at "The Bistro at SkyDome". The Toronto East Hotel introduced the public to its new atrium, Entrée Gold floor and water feature in September 1998.

→ Maximizing the value of our existing assets through investment is a core element of our business strategy. Projects such as the complete refurbishment of Benihana at the Royal York, designed to help us maintain competitiveness, were ongoing throughout the year.

EIKO SUZUKI, SERVER, BENIHANA

Delta Hotels

The second element of our strategy mandated the acquisition of a company that would provide opportunities for expansion outside of the luxury niche. In May 1998, we purchased Delta Hotels and gained immediate access to the first class hotel market through an established brand. Delta gives us the opportunity to target a larger pool of properties for acquisition, and access to a second brand will help us to maintain brand integrity as we expand our portfolio. The Delta reputation for service and customer satisfaction makes this company an excellent addition to the Canadian Pacific Hotels family.

With our domestic position consolidated, one final goal remained: to establish a presence outside of Canada and gain a foothold in the most lucrative travel market in the world, the United States.

Princess Hotels

The Princess Hotels portfolio, comprised of seven luxurious properties in Arizona, Barbados, Mexico and Bermuda, was a match for our existing portfolio in terms of size, customer base and facilities. We acquired Princess from Lonhro plc for US$540 million in August 1998. The hotels lend a warm weather dimension to our resort offering, and position us as one of the premier resort operators in North America with 18 properties and over 8,000 rooms.

Fairmont Hotels & Resorts

An ongoing challenge for us as we expand has been the need for a retail brand that is recognized in the U.S. Although the Canadian Pacific Hotels brand is well known to the public in Canada and to travel intermediaries in Europe and Asia, research has shown us that we have little or no awareness with end users in the United States. The Fairmont Hotels brand, due to the central locations and rich history of its hotels, has an exceedingly high U.S. brand awareness for a company of its size. The seven Fairmont properties also provide a presence in gateway cities that could take years to establish on an individual hotel-by-hotel basis.

In April 1999, Canadian Pacific Limited and Canadian Pacific Hotels & Resorts Inc., entered into an agreement with Kingdom Hotels (USA) Ltd. and Maritz Wolff & Co., the owners of Fairmont Hotels Management L.P. to create a new hotel management company to be called Fairmont Hotels Inc.

We believe that our new brand – Fairmont Hotels and Resorts – will significantly accelerate our expansion efforts in the United States. The company will have an impressive collection of 35 landmark hotels and resorts, including the existing Fairmont hotels, the Princess hotels and all of our luxury properties in Canada. We intend to leverage the Fairmont brand and reputation for service excellence as we seek out management contracts in major American cities. The Canadian Pacific Hotels name, which has equity domestically, will continue to be used in the Canadian marketplace as a sub-brand of Fairmont.

Over the next few months we will integrate all of our luxury hotels under the Fairmont Hotels banner in order to optimize operating performance. Entering this highly competitive market is undoubtedly a challenge, but we have the management expertise, a magnificent collection of assets and strong financial backing. Our mission is to be nothing less than a global player in the luxury hotel market.

Legacy Hotels Real Estate Investment Trust

Legacy was created in 1997 to own and expand an initial portfolio of 11 first class and luxury city-centre hotels managed by Canadian Pacific Hotels. Legacy is an effective vehicle for the holding of real estate, and has access to capital at competitive rates. In addition, Legacy provides the opportunity for unitholders to have direct participation in the Trust and to benefit from an advantageous tax structure. Canadian Pacific Hotels own 34% of Legacy, which is proving to be an effective vehicle for growth, particularly in Canada.

Overall, the hotel portfolio's performance was solid with Revenue Per Available Room ("RevPAR") increasing by $7.48, an 8% growth over 1997's results. Legacy's financial results were also strong with gross operating revenues of $361.4 million exceeding 1997 by 11%. Net income for the year, excluding a $3 million provision for year 2000 readiness costs, was $48.0 million compared to $37.5 million in 1997. Distributable income at $47.0 million exceeded 1997 results by 27%, and annual distribution was $0.785 per unit. Legacy's 1998 results exceeded forecast for gross operating revenues, net income and distributable income.

Legacy enhanced its portfolio through acquisitions and upgrade projects over the past year, and plans to continue its selective approach to growth in the future.

Looking Beyond our Traditional Borders

The past year has been a time of transition. We now have two brands, Delta and Fairmont, that provide limitless opportunities for growth. We have an expanded asset base which includes exciting new properties in Canada, warm weather resorts in Mexico and the Caribbean, and hotels in seven major U.S. cities. Things have moved quickly and change has been a daily reality. We would like to thank our dedicated employees for embracing change with us. Over the past year, I have been continually impressed by the very real commitment shown by all members of our team, and by the enthusiasm and support we have received every step of the way. We have an exciting future together.

On behalf of the Board of Directors,

William R. Fatt
Chairman and Chief Executive Officer

→ Le Manoir Richelieu has been fully restored in time for its hundredth anniversary. Located on the banks of the St. Lawrence, the resort will feature telescopes in its Entrée Gold bedrooms, allowing guests to watch rare white Beluga whales native to the region.

looking

DELTA BESSBOROUGH, SASKATOON

DELTA OTTAWA HOTEL AND SUITES, OTTAWA

➔ The Delta Chelsea, Toronto's largest hotel, is host to both conventions and leisure travellers year round. The Delta Bessborough is in the final stages of a renovation program designed to restore it to its original splendour. Located in our nation's capital, the Delta Ottawa Hotel and Suites offers guests state-of-the-art business facilities just blocks from the World Exchange Plaza, the Supreme Court and Parliament Hill.

DELTA CHELSEA, TORONTO

beyond our borders

Delta Hotels

Delta Hotels is Canada's leading hotel company in the first class segment of the market. An integrated program designed to improve operating performance is currently underway, and has already resulted in improved reservations technology and a new corporate identity. Delta is focussing on growth in both primary and secondary domestic markets while laying the foundation for expansion in the United States through border cities.

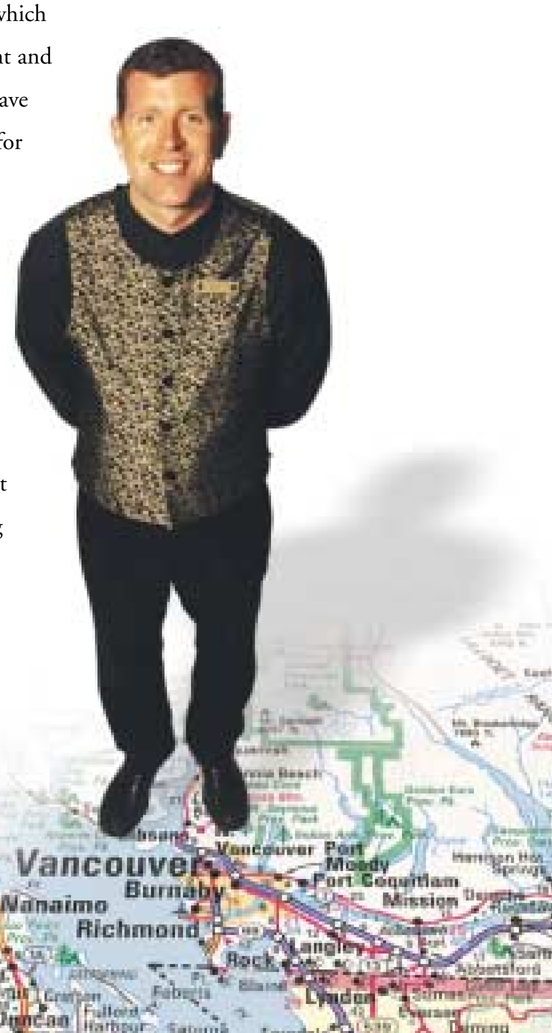
Eight new properties representing almost 3,000 rooms will join the Delta chain in 1999-2000. Six of these properties – Hotel Halifax, Hôtel Beauséjour, The Prince Edward, Hotel Toronto East, Calgary Airport Hotel and The Lodge at Kananaskis – will be acquired through brand transfers from Canadian Pacific Hotels. The Radisson Hotel Montreal Centre will become a Delta hotel upon completion of renovations, and the Delta Pinnacle Vancouver Hotel is a new development that will open early in 2000.

The company recently implemented the first phase of its new central reservations system, "Nexus". Nexus expedites bookings with real-time transactions, and incorporates a modern data warehouse which enables Delta to better manage and expand its guest loyalty program. "Delta Privilege" is the largest guest recognition program in Canada with 120,000 members. Delta's new blue logo, introduced in May 1999, is bold and energetic, and reflects the company's current status as a leader in the Canadian hospitality industry.

Although Delta is operated as a distinct brand, many areas have been identified which can share the services of one corporate function, resulting in cost savings for both Fairmont and Delta. Areas such as design and construction, law and corporate services and purchasing have already been successfully merged. Economies of scale are resulting in lower up front costs for goods and services, which will help Delta to remain competitive as it seeks out new management opportunities.

Delta is pursuing growth opportunities in cities such as Victoria, Winnipeg and Quebec City, and in secondary markets such as Kingston and Windsor. Although Delta already has one hotel in the United States, in Orlando, Florida, its current growth plan for the U.S. will focus on border cities such as Detroit, Buffalo, Portland or Seattle, where brand awareness is highest.

We would like to welcome John Johnston who joined the Delta team as President in October 1998. John has already proven to be a valuable member of the team, providing leadership to this dynamic company which is so critical to our overall growth plans.



GARY JACOB, GUEST SERVICES ASSOCIATE AT THE DELTA VANCOUVER SUITES

looking

SCOTTSDALE PRINCESS, ARIZONA

HAMILTON PRINCESS, BERMUDA

➔ For the third consecutive year, the Scottsdale Princess has earned three Four-Star awards from Mobil Travel Guide, making it one of the most awarded resorts in North America. The Hamilton Princess is a symbol of all that Bermudans hold dear – old fashioned courtesy, timeless quality and genuine hospitality. The Pierre Marques, located on the most beautiful beach in Acapulco, is hidden away among 480 acres of palm, mango and lime trees.

PIERRE MARQUES, ACAPULCO

beyond our borders

Princess Hotels

The Princess Hotels group includes seven of the most extraordinary resorts in the world. The addition of the 3,000 room chain to our portfolio made us the fourth largest resort operator in North America and the Caribbean, and gave us access to high-end travel corridors such as Bermuda and Scottsdale, Arizona. Capital improvement and expansion projects are underway in order to maintain competitiveness.

The majestic Hamilton Princess hotel in Bermuda has a century-long tradition of hospitality. Like the Chateau Lake Louise, this hotel was named after Princess Louise, daughter of Queen Victoria. The company is investing US$15 million over the next two years in a restoration program designed to upgrade the lobby, public spaces and restaurants of the “Pink Palace”.

At the other end of the island is the 600-room Southampton Princess, overlooking a scenic 18-hole golf course. Long a favorite with American families, the Southampton Princess offers guests the chance to interact with dolphins through their “Dolphin Quest” program. Work is set to begin on a US$15 million spa in 2000.

The Acapulco Princess, known for its remarkable pyramid architecture, was the first self contained destination resort in the world. Built in 1971 to much international acclaim, the hotel has its own 18-hole golf course, 14 restaurants and over 1,000 rooms. The Acapulco Princess lobby refurbishment program got underway in June 1999. The 344-room Pierre Marques, located adjacent to the Princess, was originally the private vacation retreat of John Paul Getty. The Pierre Marques has a loyal guest clientele who appreciate its quiet atmosphere and incredible beach views.

The Scottsdale Princess in Arizona is a five-star facility known for its fine cuisine and year round golf. The hotel, home of the Phoenix Open golf tournament, has 650 luxurious rooms decorated in a tasteful southwestern style. Capital plans for the Scottsdale Princess include a US$10 million spa and water feature.

The tropical Glitter Bay and Royal Pavilion hotels in Barbados have long kept alive the luxurious traditions of their original founder, Sir Edward Cunard, owner of the famous Cunard shipping line. The two hotels, with 145 rooms combined, line the beach in one of the most sought after areas of this upscale island.

Cost savings were realized in the short-term through the elimination of the Princess corporate office in New York, and through synergies in finance and accounting, purchasing, central reservations and other systems. A unified sales force sells all hotels within the expanded group, and is able to refer business from warm weather resorts to our Canadian hotels, and vice versa. The Princess properties are now truly part of our international network, and will play a valuable role as we continue to expand in the resort market.

BIBIANA SOBERANIS, HOSTESS AT LA HACIENDA RESTAURANT AT THE ACAPULCO PRINCESS

looking

THE PLAZA HOTEL, NEW YORK

THE FAIRMONT DALLAS

➔ Located at Fifth Avenue and Central Park West, the Plaza stands 19 storeys high and is only one of two hotels in New York to be designated as a National Historic Landmark. The Fairmont in Dallas is a perennial winner of the Mobil Four-Star and AAA Four Diamond awards, and is one of the city's grandest hotels. The Boston Copley Plaza, located on historic Copley Square, offers elegant and graceful service, and has earned a special place in the heart of Bostonians and visitors from around the world.

FAIRMONT COPELY PLAZA, BOSTON

beyond our borders

Fairmont Hotels

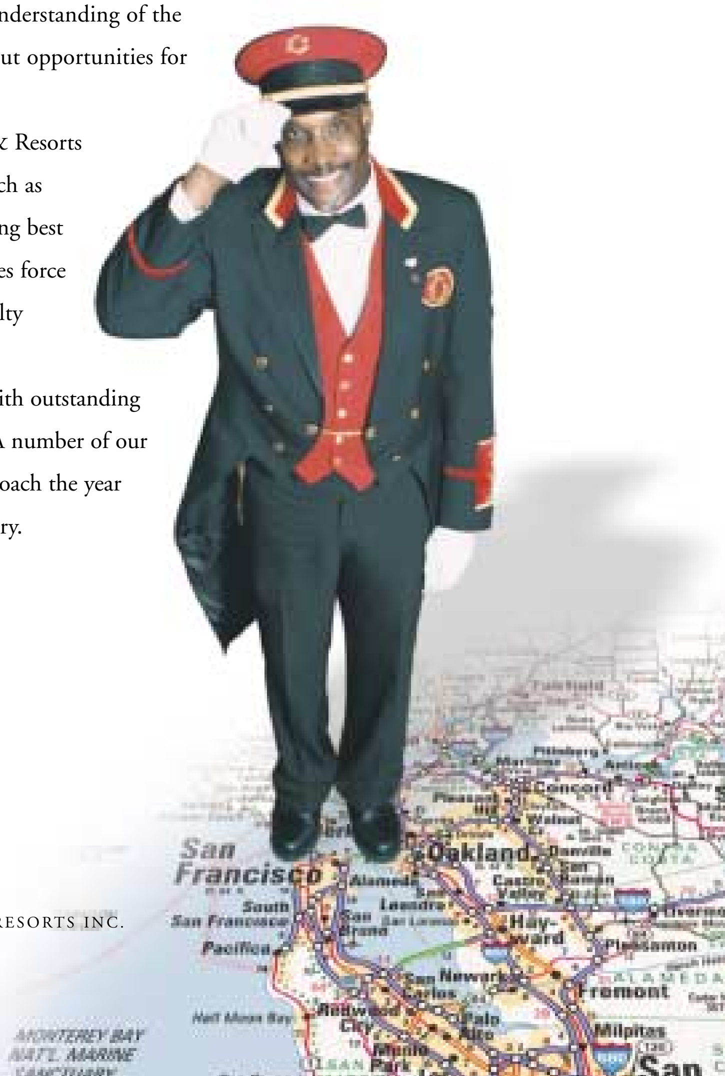
The Fairmont portfolio has a striking similarity to our own. A mixture of heritage and modern hotels, the Fairmont group includes properties that have played an important role in the cities where they are located. The legendary Fairmont San Francisco was the setting for the television series based on Arthur Hailey's bestseller, "Hotel". The Plaza in New York is one of only a few hotels that are recognized worldwide. The Fairmont Copley Plaza and the Fairmont New Orleans are majestic local icons, while the Fairmonts in Chicago, Dallas and San Jose are elegant modern properties.

The Fairmont agreement provides us with both a viable brand name and strong financial partners. Canadian Pacific Hotels ("CPH") will hold a 67% interest in Fairmont, while Kingdom Hotels (USA) Ltd. and Maritz Wolff & Co.will each have a 16.5% interest. CPH will contribute management contracts for 28 hotels to the new company and Fairmont Hotels Management L.P. will contribute the management contracts of their seven properties as well as the Fairmont brand name. Real estate ownership of the properties will not be affected.

Kingdom Hotels (USA) Ltd. is affiliated with Prince Alwaleed bin Talal bin Abdulaziz Alsaud, a well-known international investor with interests in financial services, telecommunications, luxury hotels and hotel management companies, media and real estate. Maritz Wolff is an experienced, knowledgeable real estate group which has expanded its hotel ownership to include management companies. Both partners have a demonstrated understanding of the hospitality industry. We look forward to working together as we seek out opportunities for international growth.

We have already begun work to ensure that Fairmont Hotels & Resorts operates effectively as a single company. Common standards in areas such as human resources, marketing and purchasing are being created by merging best practices. The company will be served by an aggressive international sales force with offices throughout North America and Europe. A single guest loyalty program will be in place in the short-term.

Fairmont Hotels & Resorts comes equipped from the outset with outstanding hotels, a reputation for service excellence and strong financial support. A number of our hotels have been in operation continually for over a century. As we approach the year 2000, we look forward to our second millennium in this exciting industry.



WILLIAM MAY, FRONT DOORMAN AT THE FAIRMONT SAN FRANCISCO

looking

CHÂTEAU LAURIER, OTTAWA

HOTEL HALIFAX, HALIFAX

➔ The Château Laurier, atop Parliament Hill, has played a central role in the life of our nation's capital, welcoming dignitaries and political figures from around the world. Whether travelling on business or leisure, guests at Hotel Halifax receive the friendly service and genuine hospitality that have become synonymous with Atlantic Canada. The Royal York, dignified flagship of the Canadian properties, welcomes individual guests and large groups with the same meticulous attention to detail.

ROYAL YORK, TORONTO

beyond our borders

Legacy Hotels Real Estate Investment Trust

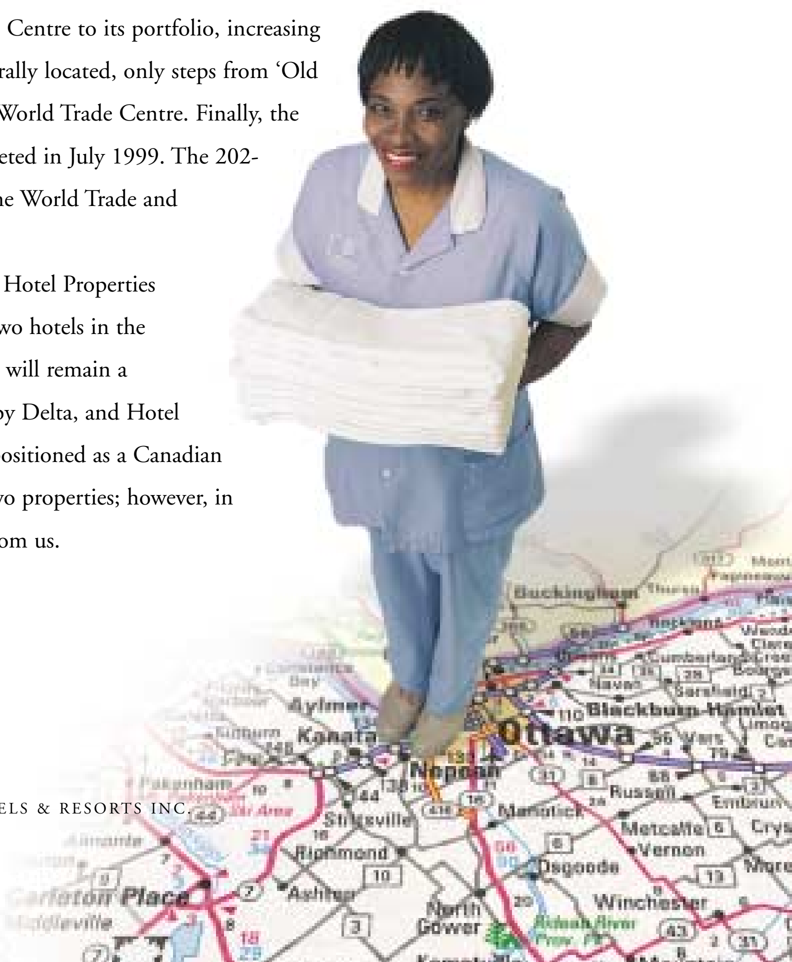
Legacy Hotels Real Estate Investment Trust ("Legacy") was created to own a growing portfolio of Canadian first class and luxury hotels. Since its inception in October 1997, Legacy has acquired six hotels, increasing the number of rooms in the portfolio by 38%. Hotels within the Legacy portfolio are managed by both Canadian Pacific Hotels and Delta Hotels.

The creation of Legacy allowed Canadian Pacific Hotels to divest from hotel ownership while providing the capital to expand our presence in new markets. The relationship is mutually beneficial. First, Legacy has an experienced hotel operator to manage its initial portfolio of 11 hotels. Second, our one-third ownership of Legacy's units aligns our interests in the Trust's performance with those of Legacy and provides us with additional funds for company expansion.

Our purchase of Delta in May 1998 provides Legacy with a Canadian hotel operator in the first class segment and additional acquisition opportunities under the Delta brand. Over the past year, Legacy has acquired four hotels, all of which are or will be managed by Delta. These new additions to the portfolio include the Delta Bessborough in Saskatoon, the Radisson Hotel Montreal Centre and the leasehold interests in both the Delta Ottawa Hotel and Suites and most recently, the Delta Barrington in Halifax.

Built in 1935, the Delta Bessborough has been one of the focal points of Saskatoon for decades. This historic, landmark hotel provides a panoramic view of the South Saskatchewan River while being centrally located in the heart of the business and shopping district. The 328-room Delta Ottawa Hotel and Suites was acquired in October 1998. It is centrally located, just blocks away from the Parliament Buildings, the Supreme Court and the World Exchange Plaza. In November 1998, Legacy added the Radisson Hotel Montreal Centre to its portfolio, increasing Legacy's presence in a strengthening economy. The hotel is centrally located, only steps from 'Old Montreal' and physically linked to the Convention Centre and World Trade Centre. Finally, the acquisition of the Delta Barrington leasehold interest was completed in July 1999. The 202-room property in located in downtown Halifax and is close to the World Trade and Convention Centre.

In addition to these acquisitions, Legacy entered into a Hotel Properties Agreement with Canadian Pacific Hotels in February 1998 for two hotels in the Toronto area. The 296-room Four Points Hotel Toronto Airport will remain a Sheraton property under a franchise agreement but is managed by Delta, and Hotel Toronto East, a 368-room hotel located in Scarborough, was repositioned as a Canadian Pacific hotel. At this time Canadian Pacific Hotels owns these two properties; however, in September 1999, Legacy has an option to acquire these hotels from us.



ADELLA ARNOLD, ROOM ATTENDANT AT THE CHÂTEAU LAURIER

Auditors' Report

To the Shareholder of Canadian Pacific Hotels & Resorts Inc.

We have audited the consolidated balance sheet of Canadian Pacific Hotels & Resorts Inc. as at December 31, 1998 and the consolidated statements of income and retained earnings (deficit) and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, January 29, 1999
Calgary, Alberta

Five Year Summary

(in thousands of dollars)	**1998**	1997	1996	1995	1994
Net income	**$ 82,833**	$ 172,573	$ 63,595	$ 67,665	$ 33,059
Revenues	**526,871**	565,057	565,912	515,678	475,409
Revenues under management	**1,214,643**	741,413	661,090	602,866	575,929
Operating income	**147,915**	136,333	115,819	96,881	72,686
Cash from operations	**220,513**	332	107,187	86,902	63,783
Capital assets (net)	**1,306,714**	437,098	972,458	960,438	948,493
Shareholder's equity	**$ 736,680**	$ 242,174	$ 581,674	$ 571,079	$ 497,890

Consolidated Balance Sheet

(in thousands of dollars)	December 31 1998	1997
Assets		
Current assets		
Cash and short-term investments (note 2)	**$ 25,570**	$ 2,483
Deposits with affiliated company	**4,412**	1,678
Accounts receivable	**47,915**	22,458
Materials and supplies	**14,826**	6,235
Prepaid expenses	**6,887**	1,646
Note receivable (note 4)	**–**	117,006
Owing by affiliated companies	**14,196**	2,320
	113,806	153,826
Investment in hotel partnerships and others (note 3)	**62,620**	29,006
Investment in Canadian Pacific Management Inc.	**29,161**	29,161
Investment in Legacy Hotels REIT (note 4)	**109,914**	99,926
Capital assets (note 6)	**1,306,714**	437,098
Other assets (note 7)	**160,596**	5,605
	$ 1,782,811	$ 754,622
Liabilities		
Current liabilities		
Bank indebtedness – unsecured	**$ 5,817**	$ 5,530
Accounts payable and accrued liabilities	**104,830**	50,012
Owing to affiliated companies	**7,859**	3,296
Income and other taxes payable	**2,139**	1,047
Current portion of long-term debt (note 8)	**2,363**	–
Note due to Legacy Hotels REIT (note 5)	**60,500**	–
	183,508	59,885
Long-term debt (notes 5 and 8)	**700,619**	314,400
Other liabilities	**37,185**	–
Deferred income taxes	**124,819**	138,163
	862,623	452,563
Shareholder's Equity		
Share capital (note 9)	**896,016**	476,016
Foreign currency translation adjustments	**13,043**	–
Contributed surplus (note 10)	**29,000**	29,000
Deficit	**(201,379)**	(262,842)
	736,680	242,174
	$ 1,782,811	$ 754,622

Commitments and contingencies (note 18)

Approved by the Board of Directors

Director

Director

Consolidated Statement of Income and Retained Earnings (Deficit)

(in thousands of dollars)	For the year ended December 31 1998	1997
Revenues – including revenues from managed hotels (note 11)	**$ 1,214,643**	$ 741,413
Revenues		
Operating	**$ 460,792**	$ 555,051
Management fees and other income	**39,927**	9,108
Equity in income of investments (note 12)	**26,152**	898
	526,871	565,057
Expenses		
Operating costs	**353,296**	392,015
Depreciation and amortization	**25,660**	36,709
	378,956	428,724
Operating income	**147,915**	136,333
Other income (note 13)	**–**	165,876
Interest expense – net (note 14)	**32,201**	19,125
Income before income tax expense	**115,714**	283,084
Income tax expense (note 15)		
Current	**15,878**	12,648
Deferred	**17,003**	97,863
	32,881	110,511
Net income for the year	**82,833**	172,573
Retained earnings (deficit) – Beginning of year	**(262,842)**	105,658
	(180,009)	278,231
Dividends on common shares	**(21,370)**	(541,073)
Deficit – End of year	**$ (201,379)**	$ (262,842)

Consolidated Statement of Changes in Financial Position

For the year ended December 31

(in thousands of dollars)	1998	1997
Cash provided by (used in)		
Operating activities		
Net income for the year	**$ 82,833**	$ 172,573
Items not affecting current funds		
Depreciation and amortization	**25,660**	36,709
Equity in income of investments (note 12)	**(26,152)**	(898)
Deferred income taxes	**17,003**	97,863
Gain on sale of business hotels (notes 4 and 13)	**–**	(174,244)
Amortization of imputed interest (note 4)	**4,979**	827
Loss on sale of capital assets	**54**	–
Distributions from investments	**18,598**	1,550
Changes in non-cash working capital items	**97,538**	(134,048)
	220,513	332
Dividends paid	**(21,370)**	(541,073)
	199,143	(540,741)
Investing activities		
Investment in hotel partnerships and others (note 3)	**(16,371)**	(7,094)
Investment in Legacy Hotels REIT (note 4)	**(2,366)**	(193,532)
Additions to capital assets	**(51,009)**	(50,063)
Proceeds from sale of capital assets	**15,446**	44
Payment received on sale of business hotels (note 4)	**–**	719,199
Note receivable (note 4)	**–**	116,179
Decrease (increase) in other assets	**(1,197)**	14,974
Acquisitions (note 5)	**(882,211)**	–
Purchase of tax loss (note 15)	**(19,347)**	(30,222)
Foreign currency translation adjustments	**3,950**	–
Other	**–**	(3,363)
	(953,105)	566,122
Financing activities		
Issuance of note to Legacy Hotels REIT (note 5)	**60,500**	–
Issuance of long-term debt	**397,000**	104,400
Repayment of long-term debt	**(105,143)**	(153,000)
Contributed surplus	**–**	29,000
Other liabilities	**7,139**	–
Issuance of common shares (note 9)	**420,000**	–
	779,496	(19,600)
Increase in cash balance during the year	**25,534**	5,781
Cash balance – Beginning of year	**(1,369)**	(7,150)
Cash balance – End of year	**$ 24,165**	$ (1,369)
Represented by		
Cash and short-term investments	**25,570**	2,483
Deposits with affiliated company	**4,412**	1,678
Bank indebtedness	**(5,817)**	(5,530)
	$ 24,165	$ (1,369)

Notes to Consolidated Financial Statements

December 31, 1998 (tabular amounts in thousands of dollars)

1. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the consolidated accounts of the corporation, Canadian Pacific Hotels Management Corporation and Canadian Pacific Hotels Corporation (CPHC) and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

The corporation accounts for its investment in hotel partnerships and Legacy Hotels Real Estate Investment Trust (Legacy Hotels REIT) on the equity basis. Investments in Canadian Pacific Management Inc. and Chateau M.T. Inc. are accounted for on the cost basis.

Revenue recognition

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured. Management fees are recognized when earned, in accordance with the terms specified in the related management agreements.

Foreign currency translation

Foreign currency assets and liabilities of the corporation's operations are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date for monetary items and at historical exchange rates for non-monetary ones. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. Gains and losses resulting from the translation of assets and liabilities denominated in foreign currencies are included in income.

The accounts of the corporation's self-sustained foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholder's Equity as Foreign Currency Translation Adjustments.

Materials and supplies

Materials and supplies are valued at the lower of cost and replacement value.

Capital assets

All capital assets are recorded at cost. The corporation's policy is to capitalize major renewals and replacements and interest incurred during the construction period on new facilities and during the renovation period of major renovations to existing facilities costing over $1,000,000.

Depreciation is provided at rates designed to write off the assets over their estimated economic lives except for buildings on leased land which are depreciated over the lesser of the term of the lease, including options, and the economic life of the building. The annual rates of depreciation are as follows:

Buildings	sinking fund over 30 – 40 years
Building equipment	4% – 6% straight-line
Furniture and equipment	6% – 20% straight-line
Vehicles	20% – 33⅓% straight-line

The sinking fund method of providing depreciation is used for buildings. This method will amortize the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

The cost of the initial complement of the circulating operating equipment is capitalized and then depreciated by 33⅓%. Replacements are expensed when placed in service.

Maintenance and repairs

Maintenance, repairs and minor renewals and replacements are charged against income when incurred.

Management contracts

The cost of management contracts is amortized over the term of the contracts, including options, at the discretion of the corporation. If a specific management contract is terminated, the unamortized carrying cost of such management contract is written off.

Goodwill

Goodwill represents the excess of purchase price over fair value of identifiable assets acquired, and is amortized to income over the estimated periods of benefit. The corporation evaluates the carrying value of goodwill for possible impairment on an annual basis. Goodwill is written down to fair value when declines in value are considered to be other than temporary based upon expected cash flows of the respective operation.

Pre-opening expenses

Pre-opening expenses of new facilities are amortized over a period of 60 months commencing the month following the opening of the facility.

Development costs

Development costs are amortized generally over 36 months from the date of completion of the specific project. If a specific project is abandoned, all development costs are expensed in full.

Income taxes

The corporation follows the tax allocation basis of accounting for income taxes. On this basis, a deferred income tax provision is recorded to reflect the tax effect of the difference between capital cost allowances and other deductions (income) for tax purposes (other than capital cost allowances claimed on the difference between the tax and book value of capital assets referred to in note 15) and depreciation, amortization and other expenses (income) included in income.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Actual results could differ from those estimates.

2. Cash and short-term investments

Cash and short-term investments include a capital expenditure reserve based on 3.5% of gross revenues as defined in the loan agreement with Scottsdale Princess Hotel. The capital expenditure reserve is to be used solely for the purpose of paying for capital renewals. As at December 31, 1998, the capital expenditure reserve balance held in an escrow deposit is US$3,984,000.

(tabular amounts in thousands of dollars)

3. Investment in hotel partnerships and others

		1998		1997
Accounted for on the equity basis				
Chateau Whistler Resort	**$**	**23,836**	$	24,074
Hotel Newfoundland		**1,795**		1,932
Manoir Richelieu		**12,926**		–
Delta Vancouver All Suites		**4,661**		–
Pemberton Princess Hotels - Barbados (see note 5)		**16,402**		–
	$	**59,620**	$	26,006
Accounted for on the cost basis				
Chateau M. T. Inc.		**3,000**		3,000
	$	**62,620**	$	29,006

4. Investment in Legacy Hotels REIT

In November 1997, eleven hotels located in business centres were effectively sold by the corporation to Legacy Hotels REIT for gross proceeds of $841,184,000, with $719,199,000 received in cash and a note receivable from Legacy Hotels REIT for the outstanding balance of $121,985,000.

The note was secured by an assignment of Legacy Hotels REIT's rights, including an assignment of the pledge of the Receipt Units as security for payment when such final installments are received. The note was non-interest bearing, and was discounted at a rate of 5.0% per annum. On November 10, 1998, the note was redeemed.

Interest income of $4,979,000 (1997 - $827,000) was recognized during the year.

In 1997, the corporation acquired approximately 33% of the units of Legacy Hotels REIT, totalling 19,748,164 units for $193,532,000. In 1998, the corporation acquired an additional 190,400 units for $1,189,000, increasing its investment in Legacy Hotels REIT to 33.6%.

The corporation has entered into an Advisory Agreement, Strategic Alliance Agreement and Management Agreements with Legacy Hotels REIT.

5. Acquisitions

Toronto Hotels

In February 1998, the corporation purchased 100% of the shares of two companies, whose principal assets were two hotel properties in the greater Toronto area. These companies were amalgamated with CPHC on May 31, 1998.

The acquisition was accounted for using the purchase method, and the results of operations of the two hotels are included in the consolidated statement of income from date of the acquisition.

The total cash consideration paid was $66,313,000, which included approximately $1,000,000 in related acquisition costs. The purchase price and related acquisition costs are allocated as follows:

Land	$	3,000
Buildings		41,600
Furniture, fixtures and equipment		10,400
Benefit of tax loss carryforwards		11,000
Working capital		313
	$	66,313

The corporation financed the acquisition principally with a note from Legacy Hotels REIT of $60,500,000 due on September 30, 1999 with interest at 9.5% per annum.

CPHC also entered into a Hotel Properties Agreement that grants it the right to deliver the hotel properties in settlement of the note. Legacy Hotels REIT has the option to acquire the hotel properties or receive a cash amount equal to the fair market value of the hotels as determined by independent valuators.

Delta Hotels Limited

In May 1998, the corporation purchased 100% of the shares of Delta Hotels Limited for cash consideration. The total cash consideration paid was $94,083,000, that included approximately $2,100,000 in related acquisition costs.

The acquisition was accounted for using the purchase method, and the results of operations of Delta Hotels Limited are included in the consolidated statement of income from date of the acquisition.

The excess of total cost over fair value of assets acquired that has been allocated to goodwill is being amortized on a straight-line basis over 40 years. Management contracts are being amortized on a straight-line basis over 20 years.

The purchase price and related acquisition costs are allocated as follows:

Working capital and other	$	(2,997)
Leased hotels interest		18,880
Other capital assets		3,342
Management contracts		33,722
Goodwill		43,636
Provision for integration initiatives		(2,500)
	$	94,083

Princess Hotels

In August 1998, the corporation acquired seven Princess Hotels resort properties from Lonrho plc. Cash consideration of US$480,000,000 was paid that included approximately US$6,000,000 of related acquisition costs, with the balance of the cost settled by the assumption of long-term debt of US$62,400,000. The excess of total cost over fair value of assets acquired that has been allocated to goodwill is being amortized on a straight-line basis over 40 years.

Five of the resort properties are 100% owned (two in Bermuda, two in Mexico and one in the United States) and the other two in Barbados are 49% owned.

(tabular amounts in thousands of dollars)

The acquisition was accounted for using the purchase method, and the results of operations of the five resorts (excluding the two Barbados properties) are included in the consolidated statement of income from date of the acquisition. The investment in the two Barbados' properties is accounted for by the equity method.

The purchase price and related acquisition costs are allocated as follows:

Working capital	$ 5,949
Land	139,348
Buildings	579,665
Furniture, fixtures and equipment	45,972
Equity investment	16,787
Goodwill	77,418
Long-term debt	(93,748)
Prepayment penalty on debt	(30,046)
Provision for integration initiatives	(19,530)
	$ 721,815

6. Capital assets

			1998	1997
	Cost	Accumulated amortization	**Net**	Net
Land and land improvements	$ 159,443	$ 447	**$ 158,996**	$ 14,111
Buildings and equipment	740,976	154,447	**586,529**	196,176
Buildings on leased land	582,702	27,912	**554,790**	220,843
Operating equipment	9,591	3,192	**6,399**	5,968
	$ 1,492,712	$ 185,998	**$ 1,306,714**	$ 437,098

Buildings and equipment includes construction in progress which is not subject to depreciation, totalling $28,298,000 (1997 - $7,581,000).

7. Other assets

			1998	1997
	Cost	Accumulated amortization	**Net**	Net
Management contracts	$ 39,722	$ 2,732	**$ 36,990**	$ 4,530
Goodwill	123,142	1,655	**121,487**	–
Deferred charges	888	258	**630**	294
Long-term advances	1,489	–	**1,489**	781
	$ 165,241	$ 4,645	**$ 160,596**	$ 5,605

8. Long-term debt

		1998		1997
Affiliated companies				
4.78% to 4.83% revolving term loans owing to Canadian Pacific Properties Inc. - due on demand	**$**	**–**	$	104,400
5.30% to 5.74% revolving term loans owing to Canadian Pacific Securities Limited - due on demand		**397,000**		–
9.0% promissory note (unsecured) owing to Canadian Pacific Securities Limited - due March 21, 2000		**10,000**		10,000
8.2% promissory note (unsecured) owing to Canadian Pacific Securities Limited - due October 16, 2000		**100,000**		100,000
7.5% promissory note (unsecured) owing to Canadian Pacific Securities Limited - due May 1, 2001		**100,000**		100,000
Other				
8.84% note owing to Connecticut General Life Insurance Company - maturing August 1, 2016 - US$30,962,000		**47,991**		–
8.84% note owing to Massachusetts Mutual life Insurance Company - maturing August 1, 2016 - US$30,962,000		**47,991**		–
	$	**702,982**	$	314,400
Less: Long-term debt maturing within one year		**2,363**		–
	$	**700,619**	$	314,400

The monthly blended principal and interest payments of the two 8.84% notes total US$578,000. These notes are secured by substantially all property, plant and equipment and assignment of rents of the Scottsdale Princess Hotel.

The principal repayments pursuant to the loan agreements are as follows:

1999	$	2,363
2000		2,577
2001		2,815
2002		3,073
2003		3,359
Thereafter		81,795
	$	95,982

(tabular amounts in thousands of dollars)

9. Share capital

Authorized

An unlimited number of common shares

Issued	**Shares**	**Amount**
Balance - December 31, 1997	3,432	$ 476,016
Issued for cash	1,117	420,000
Balance - December 31, 1998	4,549	$ 896,016

10. Contributed surplus

	1998	1997
Balance - December 31	**$ 29,000**	$ 29,000

On June 5, 1997, Canadian Pacific Limited made a contribution of capital in the amount of $29,000,000 to the corporation.

11. Revenues

It is the policy of the corporation to include in income only operating revenues pertaining to owned, including leased, hotels. However, operating responsibilities associated with managed hotels are substantially the same as for owned hotels and management fees are based largely on gross revenues. Total revenues, including revenues from managed hotels, amounted to $1,214,643,000 in 1998 (1997 - $741,413,000).

12. Equity in income of investments

	1998	1997
Equity in income of Chateau Whistler Resort	**$ 1,662**	$ 1,216
Equity in income (loss) of Hotel Newfoundland	**13**	(144)
Equity in income (loss) of Legacy Hotels REIT	**24,170**	(174)
Equity in income of Manoir Richelieu	**1,799**	–
Equity in loss of Delta Vancouver All Suites	**(583)**	–
Equity in loss of Pemberton Princess Hotels - Barbados	**(909)**	–
	$ 26,152	$ 898

13. Other income

In 1997, the following was included in other income:

Gain on sale of business hotels (note 4)	$ 174,244
Write-off of deferred charges	(5,166)
Other expense	(3,202)
	$ 165,876

14. Interest expense - net

	1998	1997
Long-term debt	**$ 39,967**	$ 21,460
Other	**197**	199
	40,164	21,659
Less		
Interest income	**2,458**	1,632
Interest capitalized	**526**	75
Imputed interest on note receivable (note 4)	**4,979**	827
	$ 32,201	$ 19,125

15. Income taxes

The tax base of the depreciable assets acquired from a related company on January 30, 1987 was $63,754,000 higher than the amount recorded in the accounts of the corporation and the remaining balance at the end of the year is $33,451,000. The benefit resulting from the higher tax value is being taken into income as the related assets are depreciated for tax purposes.

On December 23, 1998, CPHC acquired three companies from Canadian Pacific Limited with approximately $49,964,000 of non-capital tax losses for $19,347,000. The three acquired companies were subsequently amalgamated with CPHC on January 1, 1999 and all non-capital tax losses are expected to be fully utilized in 1999.

16. Fair value of financial assets and financial liabilities

The fair values of accounts receivable and accounts payable and accrued liabilities and bank indebtedness approximate their carrying values due to the relatively short periods to maturity of these instruments.

The carrying value of the two 8.84% notes and the prepayment penalty are as follows:

	Carrying value
8.84% notes	$ 95,982
Prepayment penalty on debt	31,000
	$ 126,982

The fair values of the two 8.84% notes and prepayment penalty are estimated based on rates currently available for long-term borrowing with similar terms and conditions and approximate their carrying value.

(tabular amounts in thousands of dollars)

17. Pension plans

The corporation has a number of pension plans of which two are defined contribution plans, whereby, the pension costs generally equal plan contributions made during the year. The other plans are defined benefit plans that provide for pensions based principally on years of service and compensation rates near retirement. The actuarial present value of accrued pension benefits attributed to services rendered up to that date and the value of pension fund assets for the corporation's Canadian pension plans amounted to $52,800,000 and $89,000,000, respectively. In 1998, the Executive Supplemental Pension Plan of the corporation was replaced by a new plan whereby pension payments are secured by a letter of credit from a major financial institution.

As a result of the newly acquired Princess Hotels, the corporation sponsors two 401(K) plans in the United States and a non-contributory defined benefit plan in Bermuda. Delta Hotels Limited has a defined contribution plan for its employees.

18. Commitments and contingencies

Capital expenditures

Capital expenditures in 1999 totalling approximately $182,900,000 are planned for existing wholly owned or leased hotels. Contractual commitments in respect of the foregoing projects totalled $35,900,000 at December 31, 1998.

Leases

Minimum rentals for operating leases under which the corporation operates hotels are:

1999	$	7,031
2000		6,080
2001		4,926
2002		4,453
2003		4,331
Later years	$	17,387
	$	44,208

Scottsdale Princess Hotel has entered into a ground lease with the City of Scottsdale with respect to the land on which the hotel building is partially situated. The initial fee for obtaining this lease was US$1,500,000 which has been capitalized as capital assets. The term of the lease, that commenced on December 30, 1985, is 99 years and provides for an annual rental of 2% of the gross revenues, as defined by the ground lease.

Guarantees

The corporation has guaranteed up to $5,000,000 of debt relating to the investment in Chateau M. T. Inc.

The corporation has given an environmental indemnification in relation to the two 8.84% notes disclosed in note 8.

19. Related party transactions

Cash management is centralized in Canadian Pacific Limited (CPL), the ultimate parent company of the corporation, to the extent that the operating bank balances of the corporation are being cleared to the account of CPL at the end of each day.

The corporation has financing arrangements on normal commercial terms with members of the Canadian Pacific Group (see note 8) and interest expense paid during the year ended December 31, 1998 amounted to $31,608,000 (1997 - $21,638,000).

On December 21, 1998, the corporation entered into an arrangement with Canadian Pacific Securities Limited (CPSL) whereby the corporation issued 200,000 Class G Preferred Shares for an aggregate subscription price of $200,000,000 to CPSL, and the proceeds received were loaned to CPSL. The Class G Preferred Shares pay a dividend at a floating rate equal to the three months banker's acceptance plus 25 basis points. The loan to CPSL bears a floating rate equal to three months banker's acceptance rate plus 20 basis points.

Loan owing by Canadian Pacific Securities Limited	$	200,000
Less: Class G preferred shares issued to Canadian Pacific Securities Limited	$	200,000
	$	–

As part of normal business activities, certain administrative services are provided at cost within members of the Canadian Pacific Group. The corporation is reimbursed for costs associated with providing central reservation, sales and marketing, accounting, management information, and employee training to Legacy Hotels REIT. The total amount of these reimbursements during the year were $13,053,000 (1997 - $1,892,000).

Fees received from Legacy Hotels REIT for services provided were as follows:

		1998		1997
Management	**$**	**11,514**	$	1,237
Advisory		**3,664**		543
Acquisition		**518**		–
	$	**15,696**	$	1,780

20. Uncertainty due to Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Corporate Officers

CANADIAN PACIFIC HOTELS EXECUTIVE TEAM

DELTA HOTELS EXECUTIVE TEAM

Standing:
Ronald S. Tanaka, *Senior Vice President Design, Construction and Development*
John W. Meissner, *Vice President Sales*
Warren R. Markwart, *Vice President Revenue Management*
Terence P. Badour, *Vice President and General Counsel*
Ann Layton, *Vice President Public Affairs and Communications*
M. Jerry Patava, *Executive Vice President and Chief Financial Officer*
Eugene H. Wong, *Vice President Finance and Accounting*

Middle:
William R. Fatt, *Chairman and Chief Executive Officer*

Sitting:
Brian A. Richardson, *Vice President Marketing*
Carolyn J. Clark, *Vice President Human Resources*
Chris J. Cahill, *President and Chief Operating Officer*
Neil J. Labatte, *Vice President Acquisitions*

Missing:
Tim J. Aubrey, *Vice President Technology*

Standing:
William J. Pallett, *Senior Vice President, People and Quality*
Wayne W. Taylor, *Vice President, Development*
Kevin T. Frid, *Vice President, Hotel Operations*
Stuart A. Jolliffe, *Regional Vice President - Operations, Ontario*
Ken W. Lambert, *Vice President, Marketing and Sales*

Sitting:
David M. June, *Vice President, Finance and Chief Financial Officer*
John M. Johnston, *President*
William R. Fatt, *Chairman*

Corporate Information

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Parent Company

Canadian Pacific Limited

Calgary-based Canadian Pacific is a diversified operating company active in transportation, energy and hotels. The Canadian Pacific group of companies includes Canadian Pacific Railway, CP Ships, PanCanadian Petroleum, Fording and Canadian Pacific Hotels.

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