

Canadian Pacific Hotels & Resorts



*EXTRAORDINARY HOTELS
EXTRAORDINARY PLACES*

ANNUAL REPORT 2000

Canadian Pacific Hotels & Resorts Inc. (“CPH&R”) is Canada’s largest hotel management company operating 76 properties with over 30,000 rooms in Canada, the United States, Mexico, Bermuda and Barbados. It



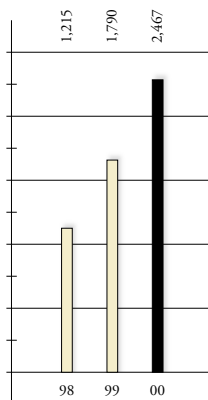
holds a 67 percent controlling interest in Fairmont Hotels & Resorts, North America’s largest luxury hotel management company. Fairmont manages 37 distinct city centre and resort hotels such as The Fairmont San Francisco, The Fairmont Banff Springs, Fairmont Le Château Frontenac, The Fairmont Scottsdale Princess and The Plaza in New York City. CPH&R also holds a 100 percent interest in Delta Hotels, which manages and franchises a portfolio of 39 first class city centre and resort



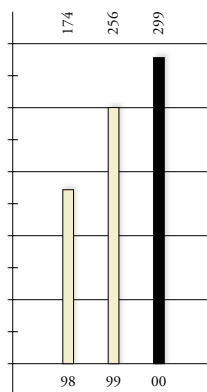
properties, primarily in Canada. In addition to hotel management, CPH&R holds real estate interests in 19 properties and a 46 percent investment interest in the Legacy Hotels Real Estate Investment Trust, which owns 21 hotels.

HIGHLIGHTS

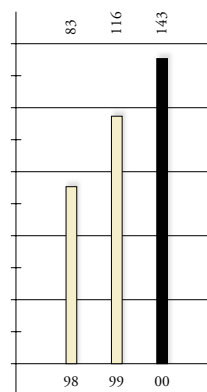
CPH&R
REVENUES UNDER
MANAGEMENT
(in millions of Canadian Dollars)



CPH&R
EBITDA¹
(in millions of Canadian Dollars)



CPH&R
NET INCOME
(in millions of Canadian Dollars)



¹ Earnings before interest, income taxes, depreciation and amortization.



Portfolio

FAIRMONT HOTELS & RESORTS

(TOTAL 18,593 ROOMS)

HOTEL	LOCATION	ROOMS
Kea Lani Resort*	Wailea, Maui, Hawaii	450
The Fairmont San Francisco	San Francisco, California	591
The Fairmont San Jose	San Jose, California	541
The Fairmont Miramar Hotel, Santa Monica	Santa Monica, California	302
The Fairmont Scottsdale Princess	Scottsdale, Arizona	650
The Fairmont Dallas	Dallas, Texas	550
The Fairmont Kansas City At The Plaza	Kansas City, Missouri	366
The Fairmont New Orleans	New Orleans, Louisiana	700
The Fairmont Chicago	Chicago, Illinois	692
The Plaza**	New York, New York	805
The Fairmont Copley Plaza Boston	Boston, Massachusetts	379
The Fairmont Empress	Victoria, British Columbia	472
The Fairmont Chateau Whistler	Whistler, British Columbia	558
The Fairmont Hotel Vancouver	Vancouver, British Columbia	556
The Fairmont Waterfront	Vancouver, British Columbia	489
The Fairmont Vancouver Airport	Richmond, British Columbia	392
The Fairmont Jasper Park Lodge	Jasper, Alberta	440
The Fairmont Chateau Lake Louise	Lake Louise, Alberta	487
The Fairmont Banff Springs	Banff, Alberta	770
The Fairmont Palliser	Calgary, Alberta	405
The Fairmont Hotel Macdonald	Edmonton, Alberta	198
The Fairmont Winnipeg	Winnipeg, Manitoba	350
The Fairmont Royal York	Toronto, Ontario	1,365
Fairmont Château Laurier	Ottawa, Ontario	429
Fairmont Le Château Montebello	Montebello, Quebec	211
Fairmont The Queen Elizabeth	Montreal, Quebec	1,061
Fairmont Tremblant	Mont-Tremblant, Quebec	316
Fairmont Le Château Frontenac	Quebec City, Quebec	607
Fairmont Le Manoir Richelieu	Charlevoix, Quebec	405
The Fairmont Algonquin	St. Andrews By-the-Sea, New Brunswick	250
The Fairmont Newfoundland	St. John's, Newfoundland	301
The Fairmont Acapulco Princess	Acapulco, Mexico	1,017
The Fairmont Pierre Marques	Acapulco, Mexico	343
The Fairmont Southampton Princess	Southampton, Bermuda	593
The Fairmont Hamilton Princess	Hamilton, Bermuda	410
Puerto Rico Resort (2003)	Rio Grande, Puerto Rico	N/A
The Fairmont Royal Pavilion	St. James, Barbados	75
The Fairmont Glitter Bay	St. James, Barbados	67

DELTA HOTELS

(TOTAL 12,100 ROOMS)

HOTEL	LOCATION	ROOMS
Delta Pacific Resort and Conference Centre	Richmond, British Columbia	438
Delta Vancouver Airport	Richmond, British Columbia	415
Delta Vancouver Suites	Vancouver, British Columbia	226
Delta Pinnacle	Vancouver, British Columbia	434
Delta Whistler Resort	Whistler, British Columbia	292
Delta Whistler Village Suites	Whistler, British Columbia	207
Tantalus Lodge	Whistler, British Columbia	76
Delta Bow Valley	Calgary, Alberta	398
Delta Calgary Airport	Calgary, Alberta	296
Delta Lodge at Kananaskis	Kananaskis Village, Alberta	321
Delta Edmonton Centre Suite Hotel	Edmonton, Alberta	169
Delta Edmonton South Hotel and Conference Centre	Edmonton, Alberta	237
Delta Bessborough	Saskatoon, Saskatchewan	225
Delta Regina	Regina, Saskatchewan	255
Delta Winnipeg	Winnipeg, Manitoba	402
Delta London Armouries	London, Ontario	250
Delta Meadowvale Resort and Conference Centre	Mississauga, Ontario	374
Four Points Hotel Toronto Airport	Mississauga, Ontario	296
Delta Toronto Airport	Toronto, Ontario	247
Delta Chelsea	Toronto, Ontario	1,590
Delta Toronto East	Toronto, Ontario	368
Delta Pinestone Resort	Haliburton, Ontario	103
Delta Sherwood Inn	Port Carling, Ontario	49
Delta Grandview Resort	Huntsville, Ontario	151
Delta Rocky Crest Resort	Muskoka, Ontario	65
Delta Lake Joseph Resort	Port Carling, Ontario	25
Delta Ottawa Hotel and Suites	Ottawa, Ontario	328
Delta Montreal	Montreal, Quebec	453
Delta Centre-Ville	Montreal, Quebec	711
Delta Sherbrooke Hotel and Conference Centre	Sherbrooke, Quebec	178
Delta Trois-Rivières Hotel and Conference Centre	Trois-Rivières, Quebec	159
Delta Brunswick	Saint John, New Brunswick	255
Delta Beauséjour	Moncton, New Brunswick	310
Delta Halifax	Halifax, Nova Scotia	296
Delta Barrington	Halifax, Nova Scotia	200
Delta Sydney	Sydney, Nova Scotia	152
Delta Prince Edward	Charlottetown, Prince Edward Island	211
Delta St. John's Hotel and Conference Centre	St. John's, Newfoundland	276
Delta Orlando Resort	Orlando, Florida	662

* To become The Fairmont Kea Lani Maui (Q2/2001)

** A Fairmont managed hotel



■ Fairmont Hotels & Resorts
■ Delta Hotels

- Whistler (1,3)
- Jasper (1)
- Edmonton (1,2)
- Lake Louise (1)
- Vancouver/Richmond (3,4)
- Banff/Kananaskis (1,1)
- Calgary (1,2)
- Saskatoon (1)
- Victoria (1)
- Regina (1)
- Winnipeg (1,1)
- Charlevoix (1)
- Sydney (1)
- Moncton (1)
- Charlottetown (1)
- Quebec City (1)
- Mont-Tremblant (1)
- Trois-Rivières (1)
- Saint John/St. Andrews (1,1)
- Montebello (1)
- Sherbrooke (1)
- Halifax (2)
- Ottawa (1,1)
- Montreal (1,2)
- Muskoka (5)
- Toronto (1,5)
- Boston (1)
- London (1)
- New York (1)
- Chicago (1)
- Kansas City (1)
- San Francisco (1)
- San Jose (1)
- Santa Monica (1)
- Scottsdale (1)
- Dallas (1)
- New Orleans (1)
- Orlando (1)
- Bermuda (2)
- Puerto Rico (1) (2003)
- Acapulco (2)
- Barbados (2)

HAWAIIAN ISLANDS

- Wailea, Maui (1)

Canadian Pacific Hotels & Resorts Inc. ("CPH&R") had a successful year in 2000. Net income rose to \$143 million, up 23% from the \$116 million earned in 1999 and a significant increase from the \$73 million recorded from normal operations in 1997, the last year we were a solely domestic owner and operator. Earnings before interest, income taxes, depreciation and amortization ("EBITDA") increased to \$299 million from \$256 million in 1999. CPH&R has now produced seven straight years of record operating earnings.



Equally important, we continued to build the strength, awareness and efficiency of our two management companies, Fairmont Hotels & Resorts ("Fairmont") and Delta Hotels ("Delta"). We fully integrated our luxury hotels under the growing Fairmont brand and recently gained important international recognition with 19 of Fairmont's 37 hotels gracing the *Conde Nast Traveler's* coveted 2000 Gold List. Fairmont Le Château Frontenac, which scored a remarkable 95.9% ranking for its surrounding location and local atmosphere, placed second in The Americas in this category. For top places to stay in Canada, Fairmont secured just under half of the spots, with 11 of the 24 listings. The awards, known as the largest private poll of consumer attitudes in the United States, are based on the opinions of over 25,000 readers of *Conde Nast Traveler* magazine.

Delta achieved significant growth in both the number of hotels and rooms under management, as well as increased recognition of the revitalized brand. In addition to becoming the first hotel company to be awarded the National Quality Institute's prestigious Canada Awards for Excellence, Delta was named one of the "Top 35 Companies to Work For" in Canada by *Report on Business Magazine*.

The hotel real estate owned by the company is primarily held in a wholly owned subsidiary, Canadian Pacific Hotels Real Estate Corporation ("CPHREC"). In 2000, CPHREC continued to improve in both quality and operating performance. In particular, the 32% increase in EBITDA at the Princess properties in 2000 compared to 1999 demonstrates our ability to identify acquisition opportunities where we can add value and deliver results. A significant investment program undertaken over the past year will yield sustainable improvements in operating performance and above average returns in the future.



Most of the company's real estate value is in resorts in six locations. The Fairmont Banff Springs and The Fairmont Chateau Lake Louise are in Banff National Park, world renowned for its natural beauty. The Fairmont Chateau Whistler is in Whistler, British Columbia, a four-season resort widely recognized as North America's best ski destination. CPHREC acquired the remaining 80% interest in this hotel on November 30, 2000. The Fairmont Scottsdale Princess is a five-diamond resort hotel in the growing Scottsdale, Arizona market. The Fairmont Hamilton Princess and The Fairmont Southampton Princess are located in Bermuda, where the company enjoys favourable income tax treatment on its earnings. The Fairmont Acapulco Princess and The Fairmont Pierre Marques in Acapulco, Mexico represent a continuing opportunity to create substantial increases in the value of our real estate as Fairmont's management expertise and strength with travel intermediaries increase the operating results at these hotels. The company's most recent acquisition, the Kea Lani Resort on Wailea beach in Maui, acquired on February 1, 2001, is a luxurious all-suite resort and spa in Hawaii's most sought after location.

The company's affiliate, Legacy Hotels Real Estate Investment Trust ("Legacy"), completed another year of record results, with distributable income up 43% from 1998, its first full year of activity. In 2000, Legacy acquired two hotels, The Fairmont Winnipeg and Delta Winnipeg. In early 2001, Legacy entered the resort market with the acquisition of two wholly owned properties from CPHREC, The Fairmont Empress and Fairmont Le Château Frontenac, for an aggregate sale price of \$305 million.

Building for the future was a consistent theme of our 2000 activities. A major focus was the development of state-of-the-art e-commerce capabilities that will be introduced early in 2001. A dynamic, fully interactive website will replace our existing systems and enable guests to plan their Fairmont "experience" on-line. The system includes a data warehouse which will capture the entire transactions history of our guests which will be matched with profiles that can be developed on line. The resulting data can be leveraged to gain a larger share of their spending and enhance loyalty to the brand. Not only will our guests be able to view our facilities and book their rooms on line, they will also be able to arrange



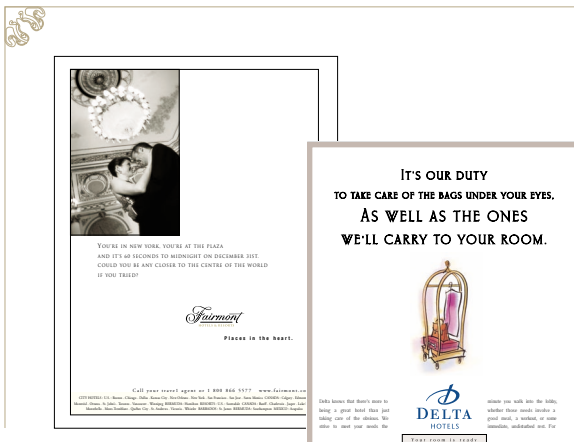
a variety of other activities both on property and at the destination, including spa appointments and golf tee times. This information will then become a part of their profile, making it possible to offer them tailored packages during their next on-line session. Members of Fairmont's President's Club, our most frequent guests, will have access to their own secure area of the website where they can update their personal profiles. These enhanced profiles will then be communicated to personnel at the hotel who will "customize" the guest's stay. In addition, this information will greatly enhance our ability to communicate with this very important target group, ensuring that we provide the services that they consider important and allowing us to extend exclusive offers to them.

We have invested in LifeCast.com, Inc., an e-commerce marketing company that is the largest provider of web-based products to U.S. private golf and yacht clubs and their members. This investment and the related marketing arrangements will give Fairmont access to a substantial number of U.S. residents who match our guest profile.

Fairmont's frequent guests constitute the most sought after customer segment in North America, including individuals and households in the top 2.5% of disposable income in the United States. Fairmont's guests also include individuals with a demonstrated willingness to spend on luxury goods and to travel frequently. Strengthening our relationship with these customers and gaining access to others who fit the Fairmont profile will enable us to maximize the efficiency and effectiveness of our marketing expenditure.

Early in 2001, we agreed to become a founding equity partner in Avendra L.L.C., an e-procurement company. Our partners in Avendra L.L.C. are Hyatt, Bass, ClubCorp and Marriott. All partners are guaranteed the same pricing benefits and the combined purchasing power of the group should lead to significant savings in the cost of goods. This will benefit our management companies, our owned hotels and the hotels owned by our partners, affiliates and others.

We have developed a unique model for the future profitable growth of our hotel company. All of our hotel management and hotel real estate ownership entities are well aligned to enhance our prospects. The Fairmont and Delta brands are distinct, yet provide excellent synergies in administrative areas that result in more efficient and cost-effective



"Places in the Heart" is the theme for Fairmont Hotels & Resorts most recent national advertising campaign, launched in early 2001. Impactful and dramatic, each advertisement captures the essence of the Fairmont brand – unrivalled prominence, unforgettable luxury and service excellence.

In 2000, Delta launched two national advertising campaigns to build awareness for the brand and position Delta Hotels as the hotel choice for business travellers. According to a recent development study following the campaign, advertising efforts are having a positive impact on brand awareness – the Delta brand is clearly a leader in the full service, first class category.



Fairmont Hotels & Resorts

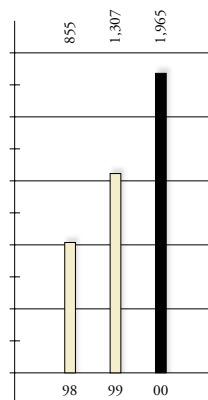
*F*airmont Hotels & Resorts (“Fairmont”) was formed in October 1999 and immediately became North America’s largest operator of luxury hotels and resorts. Canadian Pacific Hotels & Resorts (“CPH&R”) contributed long-term management contracts of 27 properties in Canada, the United States, Bermuda, Mexico and Barbados. The original Fairmont Hotel Management L.P. contributed management contracts of seven hotels in key U.S. gateway cities and all rights to the Fairmont brand. CPH&R owns 67% of Fairmont and Maritz, Wolff & Co. and an affiliate of Prince Alwaleed bin Talal bin Abdulaziz Alsaud each own 16.5%. Fairmont manages 27 hotels owned by Canadian Pacific Hotels Real Estate Corporation (“CPHREC”) and Legacy Hotels Real Estate Investment Trust (“Legacy”).

The Fairmont name has long been associated with the historic and elegant Fairmont hotel in San Francisco. The brand was extended through the management of six American luxury hotels in New York, Boston, Chicago, Dallas, San Jose and New Orleans. At the time of CPH&R’s acquisition, Fairmont was well established and recognized in the United States as a leading luxury city centre brand. CPH&R invested in Fairmont in order to gain access to a brand name that would facilitate growth throughout North America and beyond, as well as providing an excellent base for establishing a significant presence in the United States.

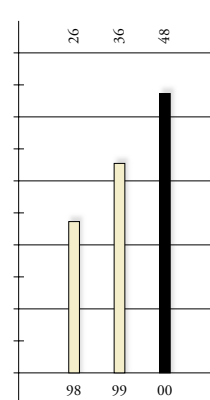
Today, Fairmont enjoys unrivalled prominence in the luxury market segment by virtue of its distinctive collection of 37 properties, a century of hotel management experience and a reputation for excellence in people, product and service. Its most frequent guests are among the most affluent consumers in North America, with a demonstrated willingness to purchase luxury goods and an obvious inclination to travel. Fairmont not only caters to the individual leisure traveller but also attracts large discerning group business as a result of its exceptional convention and meeting facilities. This diversity of customer base allows Fairmont to maximize its revenue potential as groups often book several years in advance, providing a solid base of business.

Fairmont is a hotel management company. As such, it earns fees for the management services that it provides to properties owned by others. Fairmont’s base fees are typically calculated as a percentage of a hotel’s gross revenues. Incentive fees are earned as a result of

FAIRMONT REVENUES UNDER MANAGEMENT
(in millions of Canadian Dollars)



FAIRMONT EBITDA¹
(in millions of Canadian Dollars)



¹ 1998 and 1999 EBITDA figures reflect proforma estimates of management fees from owned hotels prior to the formation of Fairmont.





improvements in financial performance, usually above a pre-determined level. In addition, hotels contribute to the cost of central services provided by Fairmont, including sales and marketing expenses incurred to promote the brand and its hotels, reservations, human resource services and information technology expenses.

Fairmont's management contracts have an average term of approximately 42 years, among the longest in the industry. These contracts provide stability in terms of the brand's portfolio of properties as well as giving Fairmont considerable future earnings potential. Fairmont's incentive fee entitlements provide the company with a significant percentage of the future earnings growth of its managed hotels. The term of these contracts will result in escalating incentive fees in future years as a result of inflationary factors and improved performance. Many of Fairmont's managed hotels are reaching the incentive fee threshold and will begin paying incentive fees in the near term.

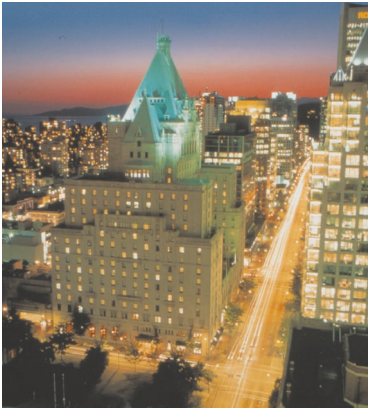
The Fairmont brand will prosper as a result of increased consumer awareness, growth of the portfolio, an efficient distribution system and improved financial performance at its managed hotels. Public recognition of the Fairmont name has already increased dramatically as a result of the rebranding of seven Princess hotels in October 1999 and 20 Canadian properties in November 2000. Growth of the brand has resulted from the

addition of the historic Fairmont Miramar Santa Monica in late 1999, The Fairmont Kansas City at the Plaza in 2000 and the prestigious Kea Lani Resort in Maui, Hawaii, in February 2001. Also in early 2001, Fairmont announced that it had entered into an agreement to manage a new luxury resort in Puerto Rico, expected to open in 2003.

Over the past two years, the company has invested heavily in its information technology infrastructure, linking all hotels via a high-speed data network and significantly enhancing revenue management capabilities. Fairmont also has an array of competitive software products which streamline the management processes for sales and marketing, accounting and control and employee communications. High-speed internet access from guestrooms and meeting facilities is a major focus for 2001.

Fairmont will replace and enhance its website in the second quarter of 2001 with an innovative interactive site that will not only allow guests to view properties and book room reservations, but also encourage the user to plan a complete Fairmont experience on-line. Early in 2001, Fairmont introduced a guest data warehouse with sophisticated data capture capabilities that will enable the company to understand individual guest preferences and to provide personalized services that are specifically targeted to our frequent guests. In addition to improving guest experiences, these systems provide a wide variety of data that will enhance the ability to market to top customers and build brand loyalty.





Fairmont launched its new President's Club during 2000. The club is a recognition program for its best customers, allowing Fairmont to tailor its service delivery so that members are both recognized and their individual preferences are understood and catered to. Members can access a secure section of the website to update their profiles, review their stays and access exclusive offers. Fairmont has already signed over 90,000 members to its President's Club.

In December 2000, Fairmont entered into a multi-million dollar investment and marketing arrangement with LifeCast.com, Inc., the leading provider of on-line services for private golf and yacht clubs and their members. This investment will expand Fairmont's connectivity with affluent consumers in North America. In January 2001, Fairmont announced its agreement to invest in and partner with Avendra L.L.C., a North American purchasing consortium that combines the purchasing power of founders Hyatt, Bass, ClubCorp, Marriott, including Ritz-Carlton, and Fairmont to bring each partner significant savings on the cost of purchased goods. All partners in Avendra L.L.C. are guaranteed the same purchasing benefits.

In 2000, owners of hotels in the Fairmont collection demonstrated their faith in the brand by investing substantial resources to upgrade and expand their hotels.

The brand's flagship hotel, The Fairmont San Francisco, underwent a complete restoration that has returned that hotel to a position of prominence in the San Francisco marketplace. At The Fairmont Kansas City at the Plaza, all public areas and guestrooms have been renovated and upgraded. Complete refurbishment of The Fairmont Miramar Hotel Santa Monica will be completed in the second quarter of 2001. The Fairmont San Jose began a 250-room expansion in mid-2000 that will open its doors to the dynamic Silicon Valley market in late 2001. The Fairmont Banff Springs will officially inaugurate its exciting new lobby and public space in November 2001 after a two-year renovation program. Phase one of a refurbishment program of all guestrooms and corridors currently underway at Fairmont The Queen Elizabeth will be completed by April 2001.

Fairmont will continue to focus on expanding its reputation for creating memorable guest experiences in unrivalled settings. Growth will result from a compelling history of improving the performance of properties under management and increased public recognition of the Fairmont brand. For its shareholders, Fairmont's growth in earnings will result from capitalizing on its attractive, long-term management contracts as well as increasing the number of luxury properties in its portfolio.





Delta Hotels

Delta Hotels Limited (“Delta”) is Canada’s leading first class hotel management company, with a total of 39 managed and franchised hotels. The acquisition of Delta in 1998 enabled CPH&R to strengthen its leadership position in the important Canadian marketplace, add a complementary brand to its portfolio and achieve significant synergies as a result of a major increase in the number of rooms under management.

Since its acquisition, Delta has upgraded its portfolio, energized its brand image and increased both the number of hotels and rooms under management. Delta’s long-standing commitment to quality was recognized in September 2000, when it became the first hotel company to receive an award from the National Quality Institute’s prestigious Canada Awards for Excellence, Canada’s top recognition for organizational excellence. Delta’s dedication to being an employer of choice was recognized when *The Globe and Mail’s* respected *Report on Business Magazine* named the company one the “Top 35 Companies to Work For” in Canada.

Delta earns both base and incentive fees for its management services. Its portfolio includes 11 hotels owned by Legacy, which provide a stable and secure base of properties that have enhanced Delta’s overall product

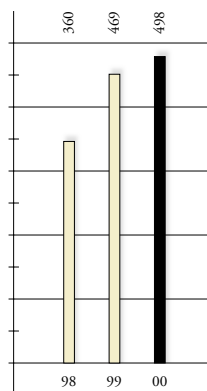
quality and brand image. Delta’s management contracts have an average term of more than 13 years.

The year 2000 was one of significant achievement for Delta. The Delta Pinnacle opened in Vancouver in February and only four months later received the coveted Four Diamond award. In June, Delta announced its return to Winnipeg with an agreement to manage the newly-named Delta Winnipeg, conveniently connected to the city’s convention centre. A major renovation program to upgrade the 402-room hotel’s facilities began in the fall.

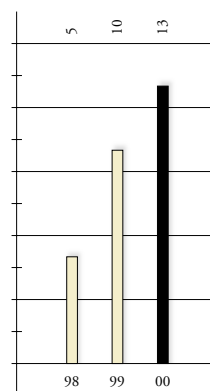
Already established in virtually every major Canadian city centre, and at many of the country’s busiest airports, Delta significantly expanded its resort component in 2000. This expansion is represented not only by Delta’s management agreements but also by CPH&R’s participation and investment in resort development.

In June, Delta assumed management of the Pinestone Resort in Haliburton, Ontario, which will be

DELTA
REVENUES UNDER
MANAGEMENT
(in millions of Canadian Dollars)



DELTA
EBITDA
(in millions of Canadian Dollars)







rebranded Delta Pinestone Resort in late spring 2001 following a major upgrade and repositioning. In September, Delta entered into a development agreement with Sun Peaks Resort Corporation for the design and construction of the 230-room Delta Sun Peaks Resort in British Columbia. The year-round resort is scheduled to open in early 2002 with CPHREC holding an equity interest in the property. Delta, through CPHREC, has agreed to acquire from ClubLink Corporation (“ClubLink”) a five-acre hotel and conference centre site at the Glen Abbey Golf Course in Oakville, Ontario, home of the Canadian Open. The 250-room property is scheduled to open in spring 2003. In early 2001, Delta began to manage all of ClubLink’s four Muskoka resorts, the Delta Lake Joseph Resort, Delta Sherwood Inn, Delta Grandview Resort and Delta Rocky Crest Resort.

As a wholly owned subsidiary of CPH&R, Delta shares services with Fairmont in the areas of technology, finance and accounting, design and construction, legal and corporate services and purchasing, significantly reducing costs. Delta also benefits from CPH&R’s pioneering approach to technology, which facilitates the creation of targeted marketing campaigns and recognition programs. In 2000, Delta launched two initiatives enhanced by this technology, the New Delta Privilege

and Delta Privilege Blue. Delta’s guest recognition program, Delta Privilege, with its famed “One Minute Check-in” guarantee and toll-free concierge service, has been one of the industry’s most innovative since it was launched several years ago. In July 2000, Delta introduced the New Delta Privilege, offering members even more benefits and services. At the same time, Delta launched Delta Privilege Blue, an exciting member recognition program for small to mid-size businesses.

In 2000, Delta’s support of the Canadian Special Olympics grew. The company-wide fundraiser, “The Great Canadian Ride”, raised over \$190,000 in support of the special Olympians. Delta’s donation was generously supported with an additional contribution of \$100,000 from the Canadian Pacific Charitable Foundation.

Expansion of the Delta portfolio is an ongoing goal. As well, the focus for 2001 includes refining its resort strategy and continuing to improve the operating performance of its hotels, with particular emphasis on yield management.

Delta has a strong infrastructure in place and is able to benefit from its shared services with Fairmont. As Delta grows, CPH&R will profit from increased income growth as additional hotels are added to the portfolio with minimal incremental cost.





Canadian Pacific Hotels Real Estate Corporation

acquired the balance of its two Barbados resorts, The Fairmont Glitter Bay and The Fairmont Royal Pavilion. Also in early 2001, CPHREC acquired the luxurious Kea Lani Resort on the Wailea coast in Maui, Hawaii. This resort will be flagged The Fairmont Kea Lani Maui in the second quarter of 2001.

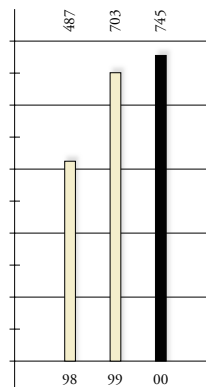
CPHREC holds the company's direct interests in hotel real estate. Of the 18 hotels in its portfolio, 14 are wholly owned and CPHREC holds minority interests in the other four. All of these properties are managed by Fairmont except for one that is managed by Delta.

CPHREC invests directly in hotel real estate where the assets are in protected markets and/or have significant development potential. CPHREC also owns hotel real estate that it has developed, where the property is in its initial operating phase and near term improvements in results are anticipated. In the case of hotel real estate investments that have stabilized their operating performance and show modest redevelopment potential, CPHREC will seek opportunities to sell these properties to others while maintaining long term management contracts for Fairmont and Delta. The sale of The Fairmont Empress and Fairmont Le Château Frontenac to Legacy is an example of this strategy. The sale closed February 1, 2001 and was completed on favourable financial terms and a highly tax-efficient basis.

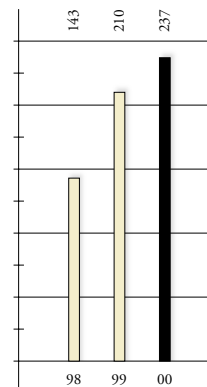
In late 2000, CPHREC acquired the remaining 80% interest in The Fairmont Chateau Whistler, an outstanding property at what is widely recognized as North America's best ski resort. In early 2001, CPHREC

CPHREC's increase in earnings in 2000 confirmed the company's confidence in its ability to add value to the Princess hotels acquired in August 1998. The Fairmont Scottsdale Princess, The Fairmont Acapulco Princess, The Fairmont Pierre Marques and The Fairmont Hamilton Princess all showed substantial revenue and EBITDA improvements in 2000. The results at the Canadian resorts showed more modest improvement due to significant construction activity and resulting operational disruptions, particularly at The Fairmont Banff Springs. In addition, the Canadian travel industry faced challenges in 2000 as a result of changes in the Canadian

HOTEL OWNERSHIP REVENUES
(in millions of Canadian Dollars)



HOTEL OWNERSHIP EBITDA¹
(in millions of Canadian Dollars)



¹ 1998 and 1999 EBITDA figures reflect proforma estimates of management fees from owned hotels prior to the formation of Fairmont.





airline industry and a highly publicized strike at several prominent Vancouver hotels. Although the CPHREC properties in Vancouver were not part of the labour dispute, the negative impact on travel was felt throughout Western Canada.

In 2000, CPHREC undertook profit improving projects at most of its hotels. Incremental investments in spas, conference and meeting facilities and the addition of guestrooms represent extremely attractive investment opportunities as the hotel infrastructure and land are already in place. All of the improvements are designed to be economic in their own right while enhancing the basic operating performance of the hotel through increased occupancies and rates. Since construction activities have adversely impacted the current performance at several of CPHREC's hotels, the completion of these projects will not only result in a return to historic profit growth patterns, but will also see significant returns on the new capital invested.

Full service luxury resort spas are being added to The Fairmont Scottsdale Princess, The Fairmont Southampton Princess and The Fairmont Acapulco Princess and should be completed by early 2002. Major renovations are in their final stages at The Fairmont Banff

Springs and the dramatic improvement in Canada's "Castle in the Rockies" will be largely complete in the fall of 2001. The Fairmont Hamilton Princess, The Fairmont Southampton Princess, The Fairmont Acapulco Princess and The Fairmont Pierre Marques are undergoing major profit improving projects and repositioning enhancements. After more than a decade of comprehensive environmental impact studies and judicial reviews, approval has been received to proceed with the construction of a 148,000 square-foot conference facility, additional guestrooms and other enhancements at The Fairmont Chateau Lake Louise.

CPHREC's real estate portfolio has substantial earnings growth potential as a result of its high quality, world-class assets in unrivalled locations and, in many cases, protected markets. Future development potential and further benefits from the growing Fairmont brand create the opportunity for substantial value growth.





Legacy Hotels Real Estate Investment Trust

In 1997, CPH&R sold 11 city centre hotels to form Legacy. CPH&R maintained the management of Legacy's hotels through Fairmont and Delta, and currently owns an approximate 46% interest in Legacy. Today, Legacy is Canada's premier hotel real estate investment trust, owning a unique portfolio of 21 hotels and resorts across Canada.

Legacy has grown its total room count by 72% since inception and its earnings outperformed previous results for three consecutive years. Legacy increased its city centre holdings in 2000 and in early 2001 began a new era with its first acquisitions in the resort sector.

The historic Fairmont Le Château Frontenac, built in 1893 in Quebec City, and the renowned Fairmont Empress, in Victoria, British Columbia, bring a new resort component to Legacy's portfolio. These high profile acquisitions also provide Legacy with a more diversified revenue base and further geographic diversification, while strengthening its heritage portfolio.

Legacy acquired the 402-room Delta Winnipeg and the 350-room Fairmont Winnipeg in the second half of 2000. Renovation programs are underway at both hotels.

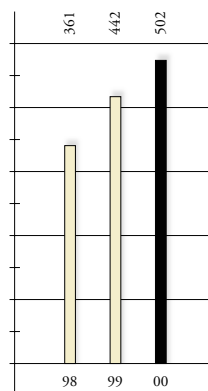
Legacy approaches investments in its physical assets with a long-term view. Selective profit improving projects increase the value and quality of the portfolio. In Toronto, The Fairmont Royal York's upgrade of the lobby and renovation of the adjacent restaurants will conclude

in March 2001 and in Montreal, Fairmont The Queen Elizabeth will complete phase one of its extensive guestroom and corridor refurbishment in April 2001. A full service spa will open at The Fairmont Empress in the fourth quarter of 2001 and the Fairmont Le Château Frontenac recently expanded its Entrée Gold product and is adding more guestrooms in April 2001.

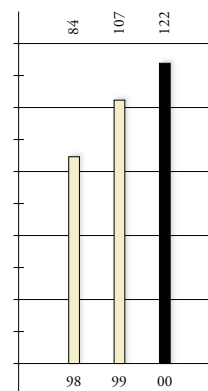
The favourable exchange rate continues to fuel American traffic to Legacy properties. In addition, Legacy expects to derive significant benefits from the November 2000 rebranding of its Canadian luxury hotels to Fairmont. The strength of this brand will attract an increasing number of discerning American travellers to Legacy's hotels and support an increase in room rates across its portfolio.

In 2001, Legacy will continue to work with Fairmont and Delta to improve and streamline hotel operations throughout its portfolio. Earnings will also be enhanced through reinvestment projects and acquisitions. The resort market in particular presents significant opportunities for growth and improved Unitholder returns.

LEGACY REVENUES
(in millions of Canadian Dollars)



LEGACY HOTEL EBITDA
(in millions of Canadian Dollars)







OVERVIEW

In 2000, Canadian Pacific Hotels & Resorts Inc. ("CPH&R") produced its seventh consecutive year of record operating earnings. Earnings before interest, taxes, depreciation and amortization ("EBITDA") of \$299 million (all amounts are stated in Canadian dollars) represent increases of 17% and 72% over 1999 and 1998, respectively. Revenues under management have doubled to \$2.5 billion in 2000 from \$1.2 billion in 1998. The company continues to benefit from its focus on optimal asset performance, selective investments, and solid fundamentals in the lodging industry.

As at December 31, 2000, CPH&R also held ownership interests in 19 luxury hotels and resort properties and one first class hotel, primarily through its ownership vehicle, Canadian Pacific Hotels Real Estate Corporation ("CPHREC"). In addition, CPH&R also held a 34% interest in Legacy Hotels Real Estate Investment Trust ("Legacy").

The company operates under two distinct brands, Fairmont Hotels & Resorts ("Fairmont") and Delta Hotels ("Delta"). Fairmont is the largest luxury hotel management company in North America and Delta is Canada's largest first class hotel management company. To date, CPH&R, together with its affiliates, remains the largest luxury hotel manager in North America and is Canada's largest operator of full service hotels.

As at December 31, 2000, CPH&R and its affiliates managed a portfolio of 71 properties totalling over 30,000 rooms, of which 20 are owned by CPH&R, 19 are owned by Legacy, 25 are under management contracts with other owners and seven are under franchise agreements. Currently, CPH&R and its affiliates manage a portfolio of 76 properties, of which 19 are owned by CPH&R, 21 are owned by Legacy, 28 are under management contracts with other owners and eight are under franchise agreements. The hotels are located throughout Canada, the U.S., Mexico, Bermuda and the Caribbean.

HOTEL OWNERSHIP OPERATIONS

CANADIAN PACIFIC HOTELS REAL ESTATE

CPH&R holds virtually all of its real estate interests in CPHREC, a wholly owned subsidiary.

In November 2000, CPHEC purchased the remaining 80% ownership interest in The Fairmont Chateau Whistler. In January 2001, CPHREC acquired the remaining 51% interest in The Fairmont Royal Pavilion and The Fairmont Glitter Bay, in Barbados. In February 2001, CPHREC acquired the Kea Lani Resort on the Wailea coast in Maui, Hawaii. This resort will be renamed The Fairmont Kea Lani Maui in the second quarter of 2001.

In February 2001, CPHREC sold The Fairmont Empress in Victoria, British Columbia and Fairmont Le Château Frontenac in Quebec City, Quebec to Legacy for \$305 million. The company was able to realize the value of some of its real estate assets, while maintaining long-term management contracts at these premier properties. The funds from the dispositions are expected to provide financing for other strategic initiatives. CPHREC intends to continue with its focus on divesting real estate interests that have lower appreciation or repositioning potential.

At December 31, 2000, CPHREC held real estate interests in 19 luxury hotel and resort properties. After the sale of The Fairmont Empress and Fairmont Le Château Frontenac and the acquisition of the Kea Lani Resort, CPHREC now holds real estate interests in 18 luxury hotel and resort properties. Fairmont manages 17 of these properties and Delta manages one.

Total revenues from hotel ownership operations for the year ended December 31, 2000, were \$745 million, an increase of \$42 million over 1999.

LEGACY HOTELS REAL ESTATE INVESTMENT TRUST

Legacy is an unincorporated closed-end real estate investment trust governed by the laws of the Province of Alberta. Including the acquisition of The Fairmont Empress and Fairmont Le Château Frontenac, Legacy holds a portfolio of 21 luxury and first class hotels and resorts across Canada, consisting of over 9,500 rooms. Fairmont manages ten of Legacy's properties and Delta manages the other 11 hotels. During 2000, CPH&R held approximately 34% of the outstanding Legacy units and accounted for this ownership interest on an equity basis.

In February 2001, Legacy acquired The Fairmont Empress and Fairmont Le Château Frontenac from CPHREC for approximately \$305 million, plus acquisition expenses. Legacy issued \$126 million in exchangeable shares of a subsidiary corporation to CPHREC and paid the remainder in cash. The exchangeable shares will be entitled to a dividend equal to the ordinary unit distribution adjusted for taxes. Dividends on the exchangeable shares may only be declared if a distribution has been declared on the regular Legacy units. Each exchangeable share is retractable at the fair market value of a Legacy unit after a minimum holding period of five years. The shares can only be retracted if certain debt service coverage thresholds are met after the retraction. The exchangeable shares are tied to voting certificates issued by Legacy which are entitled to one vote per voting certificate at all meetings of Unitholders.

As a result of the sale, CPH&R controls approximately 46% of the votes of Legacy through the exchangeable shares and units. It is CPH&R's intention to reduce its holdings of Legacy to about 34% through a secondary offering of units. The timing of such a secondary offering will be contingent upon market conditions.

During 2000, Legacy purchased two hotels in Winnipeg, The Fairmont Winnipeg, formerly The Lombard, and the Delta Winnipeg, formerly the Crowne Plaza. The Delta Winnipeg was purchased for \$29.5 million in cash, plus working capital and acquisition expenses. The Fairmont Winnipeg was purchased for a total of \$29.0 million, plus working capital and acquisition expenses. The former owners of The Fairmont Winnipeg received \$11.6 million in cash and 1,986,301 Legacy units valued at \$17.4 million.

On August 10, 2000, Legacy completed an offering of 6.4 million units at \$8.60 per unit, of which CPH&R purchased 2.9 million units. CPH&R made this purchase to maintain its ownership of Legacy at a 34% level after the issuance of units for The Fairmont Winnipeg acquisition.

Legacy benefits from a Strategic Alliance Agreement with CPHREC whereby Legacy must be advised of any investment opportunity for a business or resort hotel in Canada and be provided with an opportunity to participate in its acquisition. Additionally, under the Strategic Alliance Agreement, Legacy has a right of first offer in connection with any business or resort hotel that CPHREC or its affiliate is proposing to sell.

CPH&R's equity income, primarily from Legacy, totalled \$30 million in 2000, up from \$26 million in 1999. Equity income is included in hotel ownership operations.


MANAGEMENT OPERATIONS

FAIRMONT HOTELS & RESORTS

CPH&R holds a 67% controlling interest in Fairmont, which currently manages 37 luxury city centre and resort hotels such as The Fairmont San Francisco, The Fairmont Banff Springs, and The Plaza in New York City. The former partners of Fairmont Hotel Management L.P. ("Fairmont L.P.") hold the remaining 33%.

Fairmont was formed in October 1999, as a result of a business combination between the hotel management business of CPH&R and Fairmont L.P., a U.S. based luxury hotel manager. The transaction combined 27 Canadian Pacific management contracts for hotels located in Canada, the U.S., Mexico, Bermuda and Barbados with seven Fairmont contracts for hotels located in the United States. Fairmont L.P. also contributed all rights to the Fairmont brand name to the new management company.

Fairmont entered into an agreement to manage the former Miramar Sheraton Hotel in Santa Monica in November 1999. This hotel was renamed The Fairmont Miramar Hotel Santa Monica. In February 2000, the former Ritz-Carlton, Kansas City joined the Fairmont family through the initiation of a long-term management contract. This hotel was subsequently renamed The Fairmont Kansas City at the Plaza. In January 2001, Fairmont signed a letter of intent to manage a new \$140 million, 400-room resort on Puerto Rico's Rio Grande, 25 miles east of San Juan. Construction of the resort is to begin in mid-2001 with a projected opening in the third quarter of 2003. It will feature a 12,000 square-foot spa, 36 holes of golf and 30,000 square feet of meeting space. In February 2001, Fairmont assumed management of the Kea Lani Resort in Maui, which will be renamed The Fairmont Kea Lani Maui in the second quarter of 2001.



Immediately after the formation of Fairmont, CPH&R branded its hotels in the U.S., Mexico, Bermuda and the Caribbean as Fairmont hotels. Late in 2000, the Fairmont brand was extended to all of its managed properties in Canada. The closer association of the Canadian properties with the Fairmont branded properties in the U.S., Mexico, Bermuda and the Caribbean is expected to enhance revenue opportunities through a consistent brand message and increased international recognition.

Revenue at Fairmont is generated through base management fees typically ranging from 2.75% to 3% of each hotel's gross revenue, hotel specific incentive fees and advisory fees. For the year ended December 31, 2000, Fairmont reported total management revenues of \$66 million and contributed \$48 million to CPH&R's EBITDA, an 86% increase over 1999. As at December 31, 2000, it managed 36 hotels and resorts totalling 18,150 rooms, compared to 35 hotels with 17,800 rooms in 1999.

DELTA HOTELS

CPH&R has a 100% interest in Delta, which currently manages or franchises 38 first class urban and resort properties in Canada and one in the United States. Delta provides CPH&R with management and brand capability in the first class segment and benefits from cost synergies with Fairmont in the areas of purchasing, design and construction, finance and accounting, technology and legal and corporate services.

Delta continues to solidify its position as the largest first class hotel company in Canada, with a growing presence in resort operations. In February 2000, the 434-room Delta Pinnacle opened in the heart of downtown Vancouver and in June 2000, Delta assumed management of the 402-room Delta Winnipeg, formerly the Crowne Plaza. Also in June 2000, Delta assumed management of the Pinestone Resort located in Haliburton, Ontario. The 104-room property will be branded a Delta hotel later in 2001 once renovations are complete. In September 2000, Delta and Sun Peaks Resort Corporation announced plans for the design and construction of Delta Sun Peaks Resort, in Sun Peaks, British Columbia. This facility will include a first class, 230-room hotel and conference centre. The estimated cost of the project is \$40 million and it is expected to be completed for the beginning of the 2001-02 ski season. Delta, through CPHREC, will have a minimum 25% equity interest and will assume management of the hotel operations upon its completion. In the same month, Delta and ClubLink Corporation ("ClubLink") entered into an agreement for Delta to develop a 250-room hotel and conference centre site at the Glen Abbey Golf Club in Oakville, Ontario. The property is expected to be fully operational in 2003. In addition, in January 2001, Delta became the manager of ClubLink's four resorts in the Muskoka region north of Toronto. The resorts include the Delta Lake Joseph Resort, Delta Rocky Crest Resort, Delta Grandview Resort and Delta Sherwood Inn. During 2000, Delta and the owners of two hotels mutually agreed to the termination of two management contracts.

Delta reported total management revenues of \$18 million for 2000 and contributed \$13 million to CPH&R's EBITDA, a 36% increase over 1999. As at December 31, 2000, it managed and franchised 35 city centre, resort and airport hotels totalling 12,000 rooms, compared to 34 properties totalling 11,300 rooms in 1999.

REVIEW OF OPERATING RESULTS

CPH&R produced EBITDA of \$299 million in 2000, a 17% increase over 1999. The increase in 2000 was driven by better results from ownership of hotels, particularly at the Princess resorts acquired in mid 1998, and fees associated with new management contracts added with the formation of Fairmont in October 1999. In 1999, the company benefited from the addition of the Princess properties for the full year and healthy growth in average daily room rates ("ADR"), particularly at the Canadian resorts.

CPH&R also experienced record revenues of \$808 million in 2000 compared with \$747 million in 1999 and \$518 million in 1998. Revenues are principally derived from the company's ownership of hotel properties, though management operations continue to grow, contributing 8% of total revenue in 2000, compared with 6% in 1999 and 6% in 1998. Net income was \$143 million in 2000, a 23% increase over 1999.

Cash from operating activities of \$196 million in 2000 was up 51% from \$130 million in 1999 and up 102% from \$97 million in 1998. The return on capital employed remained constant at 13.4 % in 2000, compared with 13.5% in 1999 and 14.0% in 1998.

HOTEL OWNERSHIP OPERATIONS

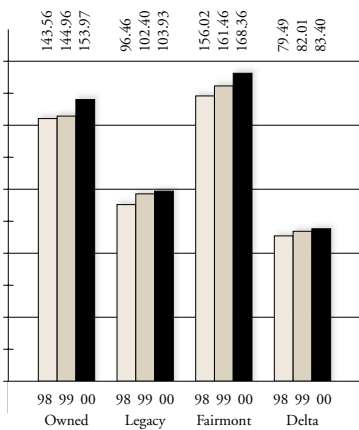
EBITDA from hotel ownership operations of \$237 million in 2000 was up \$17 million, or 8%, from \$220 million in 1999. This increase was driven primarily by higher occupancies at the Fairmont Princess resorts, which benefited from the rebranding of the resorts to the Fairmont name, improved management and a robust economy.

The Princess resort properties produced excellent results in 2000. EBITDA at the Princess hotels was up \$16 million, or 23%, over 1999, notwithstanding management fees being charged to these properties for a full year in 2000 and half a year in 1999. Excluding management fees paid, EBITDA from the Princess Hotels increased \$23 million, or 32% over 1999. The increase is attributable to significantly increased revenues and effective cost control programs at all Princess hotels, particularly The Fairmont Scottsdale Princess, The Fairmont Acapulco Princess and The Fairmont Hamilton Princess.

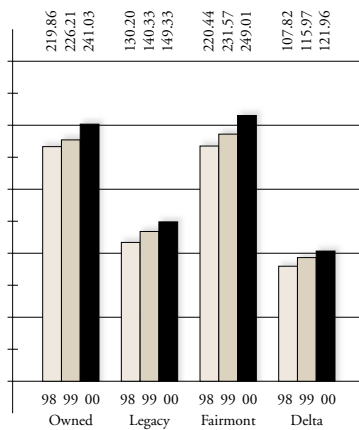
EBITDA at the Canadian resorts increased slightly during 2000, up \$4 million, or 4% above 1999. This follows growth in EBITDA of 7% in 1999. The inclusion of management fees paid to Fairmont for a full year in 2000 limited year over year gains. Also, a number of other factors negatively impacted performance in 2000. Demand for Canadian destinations from our international source markets was weaker than expected due to the threat of an Air Canada strike for most of the prime tourist season. In addition, the merger of Air Canada and Canadian reduced airline capacity and resulted in much higher pricing for our international travel partners. Another factor was the weakness of the Euro, which made Europe a generally more attractive vacation destination than North America. In 2001, management expects the Canadian resort market to improve, however, concerns over recent changes in the Canadian airline industry continue.

CPH&R expects that EBITDA lost in 2001 from the sale of The Fairmont Empress and Fairmont Le Château Frontenac to Legacy will be offset by the acquisitions of the remaining 80% interest in The Fairmont Chateau Whistler in November 2000, the 51% interest of the two Barbados resorts in January 2001 and the Kea Lani Resort in February 2001.

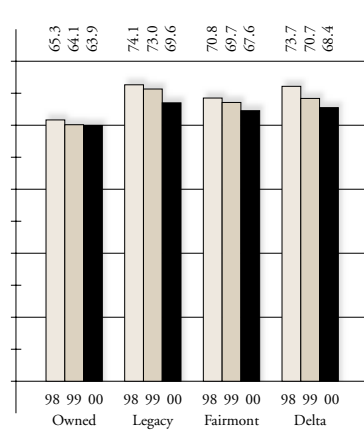
REVENUE PER AVAILABLE ROOM
(in millions of Canadian Dollars)



AVERAGE DAILY RATE
(in millions of Canadian Dollars)



OCCUPANCY
(%)



Occupancy, ADR and revenue per available room ("RevPAR") figures reflect the hotel portfolio composition as at December 31, 2000.



At the owned hotels, the ADR rose 6.6% to \$241.03 in 2000 following a 2.9% increase to \$226.21 in 1999 as a result of the strong economy. Although occupancy was essentially flat compared to 1999 levels, RevPAR increased by 6.2% over the same period of time.

EBITDA from hotel ownership operations included \$30 million of income from investments, primarily the equity investment in Legacy. Income from investments increased \$4 million from 1999 and \$13 million from 1998. Growth at Legacy resulted from strategic acquisitions and strong fundamentals in most Canadian city centre markets. In 2000, Legacy acquired two properties from third parties, the Delta Winnipeg and The Fairmont Winnipeg, at a cost of approximately \$60 million. In 1999, Delta sold its leasehold interest in the Delta Barrington in Halifax to Legacy for \$4 million and CPHREC sold the Delta Toronto East and Four Points Hotel Toronto Airport to Legacy for \$62 million.

The 2000 ADR for Legacy of \$149.33 compared favourably with \$140.33 realized in 1999 and \$130.20 realized in 1998. The occupancy rate, however, decreased slightly to 69.6% from 73.0% and 74.1% in 1999 and 1998, respectively. These changes reflect Legacy's efforts to increase RevPAR through revenue management programs. Since 1998, RevPAR has increased by 7.7% to \$103.93 despite the reduction in occupancy rates.

MANAGEMENT OPERATIONS

FAIRMONT HOTELS & RESORTS

Fairmont and CPH&R's prior management company contributed EBITDA of \$49 million in 2000, \$26 million in 1999 and \$14 million in 1998. Revenues, principally management and incentive fees, totalled \$66 million in 2000, \$38 million in 1999 and \$23 million in 1998. These increases were due largely to the formation of Fairmont during 1999 and the addition of new properties under management.

Fee revenues included \$20 million in 2000 and \$9 million in 1999 charged to CPHREC's owned properties in the period since Fairmont was established. The management of Legacy's properties generated fees of \$20 million in 2000, \$18 million in 1999 and \$14 million in 1998. Third party property management fees contributed the remainder of the revenues. These fees increased principally because of the addition of seven management contracts on the formation of Fairmont. For the Fairmont portfolio of hotels, the ADR increased 7.5% to \$249.01 in 2000 and 5% to \$231.57 in 1999. The average occupancy was 67.6% in 2000, down slightly from 69.7% in 1999 and 70.8% in 1998. These changes are in line with management's expectation of the effects of the revenue management program implemented in 2000. Such programs have increased in RevPAR by 7.9% over 1998 levels notwithstanding an occupancy decline of 4.5%.

DELTA HOTELS

EBITDA from Delta's management operations was \$13 million in 2000, \$10 million in 1999 and \$5 million for the eight-month period ending December 31, 1998. The 2000 additions of the Delta Pinnacle, the Delta Winnipeg and the Delta Pinestone, stringent cost controls and a strong North American economy are the primary factors behind this increase. With the addition of ClubLink's four Muskoka, Ontario resorts to the Delta family, EBITDA growth should remain strong in 2001.

Delta's ADR of \$121.96 was up from \$115.97 in 1999 and \$107.82 in 1998. The increases in ADR more than offset occupancy declines to 68.4% in 2000 from 70.7% in 1999 and 73.7% in 1998 and is in line with the expectations generated by the revenue management program implemented at Delta.

LIQUIDITY AND CAPITAL RESOURCES

Cash from operating activities of \$196 million in 2000 was up 51% from \$130 in 1999 and 102% from \$97 million in 1998. The increases in 2000 and 1999 were primarily due to improved earnings. Cash from operating activities in 2000 also benefited from lower increases in working capital.

In 2000, approximately \$405 million was spent on acquisitions and capital improvements. Cash from operating activities of \$196 million provided about half of the funding for these investment activities. The balance of the funding was obtained through increased borrowings. In 1999, cash from operating activities and the sale of the Delta Toronto East and the Four Points Hotel Toronto Airport provided all of the funds necessary for investment activities.

At December 31, 2000, the company's debt to equity ratio was 1.0:1 as compared to 0.9:1 for 1999. Interest coverage for 2000 was 5.8x, up from 5.1x in 1999. At December 31, 2000, cash on hand was \$70 million compared to \$15 million at December 31, 1999.

Canadian Pacific Limited ("CPL") and its affiliates have provided the majority of CPH&R's debt and all of its equity. Accordingly, CPH&R maintains minimal bank and other credit facilities. CPL has a practice of maintaining sufficient financial strength to meet the anticipated requirements of its wholly owned subsidiaries. With the recent proposal by CPL to split into five separately traded public companies, it is CPH&R's intention to establish sufficient credit facilities to ensure the continuance of normal operations.

CAPITAL INVESTMENT

One of CPH&R's main goals is to maximize the value of its existing hotels. It is currently spending large amounts of capital on a number of its hotels and resorts. These renovation projects will enhance the individual properties, with a view to improving the company's growth potential. Capital spending amounted to \$132 million in 2000 and \$123 million in 1999, with the largest amounts directed towards profit improving projects at the owned hotels and technology initiatives.

The Fairmont Princess properties have been undergoing extensive renovations since their acquisition in 1998. Projects include the addition of a full service spa and a family-oriented water feature at The Fairmont Scottsdale Princess in Arizona. In Bermuda, investments include a full service spa at The Fairmont Southampton Princess, and an Entrée Gold "a hotel within a hotel" floor, refurbished lobby, ballroom and meeting rooms at The Fairmont Hamilton Princess. Projects at The Fairmont Acapulco Princess in Mexico included a refurbished lobby and full service spa.

At the Canadian resorts, the company is upgrading its hotels while preserving the beauty of these historic properties. The Fairmont Banff Springs will have a new lobby and separate motor coach entry. As well, its kitchens will be expanded and equipped with state-of-the-art facilities. Spas will be added at The Fairmont Empress and The Fairmont Chateau Lake Louise, and a new staff residence was built at The Fairmont Jasper Park Lodge.

These additions to the properties were supplemented with selective investments integral to maintaining competitiveness. In 1999, these investments included a 25% equity interest in the century-old Fairmont Le Manoir Richelieu, which opened in June 1999. A \$140 million investment in the property by its three partners transformed the hotel into an all-season resort, with a casino, spa and golf course. In October 1999, the \$65 million Fairmont Vancouver Airport was opened. In 2000, CPHREC paid \$175 million mainly for the purchase of its partner's 80% interest in The Fairmont Chateau Whistler and additional Legacy units in August 2000 to maintain its ownership position at approximately 34%.

CPH&R plans to preserve the high quality of its hotel assets through an annual maintenance program that is based on a percentage of revenues. This percentage is usually around 5% of each hotel's gross revenue in addition to other projects, such as those listed above, which are designed to increase profits.



In 2000, CPH&R started investing in new e-commerce initiatives to further increase operational efficiencies through direct web-based booking and advanced yield management systems. In addition, improved brochure information, redesigned hotel search engines and access to personalized web-based Fairmont President's Club pages are being introduced to develop and maintain customer loyalty. These projects are expected to be implemented and operational by the end of 2001.

The company has also entered into a multi-year marketing agreement with, as well as a \$5 million investment in, LifeCast.com, Inc., the leading provider of online services for private golf and yacht clubs and their members. This relationship is expected to generate new customers in the company's target markets.

In January 2001, CPH&R announced that it had joined an alliance as a founding member with other major hotel companies that will use the services of Avendra L.L.C. ("Avendra"). Once fully operational, Avendra will be the largest internet-enabled business-to-business hospitality procurement company in the world. Avendra will provide a significant opportunity for both Fairmont and Delta to leverage their market position in Canada, offering both companies better economies of scale across the supply chain.

OPERATING RISKS

LODGING INDUSTRY CONDITIONS

The company owns and manages hotels in the luxury and first class segments of the lodging industry. This subjects the company to operating risks inherent in the industry. These risks arise from a wide range of factors, including changes in general and local economic conditions, seasonal variations in cash flow, overbuilding in the hotel industry, varying levels of demand for rooms and related services, fluctuations in the price of equipment and supplies, changes in the availability and cost of labour, competition from other hotels, changes in travel patterns, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in governmental regulations that influence or determine wages, prices and construction and maintenance costs, changes in trends, technology and service requirements in the hotel industry, changes in interest rates, the availability of financing for operating or capital needs, and changes in real estate and other taxes and other operating expenses. There can be no assurance that regulatory compliance or downturns or prolonged adverse conditions in the hotel industry or real estate or capital markets or national or local economies will not have a material adverse effect on the company's results of operations.

COMPETITION

There is intense competition between the operators of both luxury and first class hotels for guests and for management opportunities. Competition for guests is based on brand name recognition, location, room rates and quality of service and accommodation offered by other luxury and first class hotel chains. As the company grows, it will increasingly compete with other luxury and first class hotel operators for desirable sites and management opportunities. CPH&R believes that it has the reputation, as well as quality and depth of management to be successful in its acquisition program.

DEPENDENCE ON MANAGEMENT CONTRACTS

Management contracts expire, or are acquired, terminated or renegotiated in the normal course. Both Fairmont and Delta manage properties for third party owners that are subject to the terms of the various management agreements. Such terms typically include standards to be maintained, performance tests, and non-disturbance in the event of the sale of a property. A non-defaulting party can generally terminate the contracts, although the agreements provide time to cure a default. The average remaining length of Fairmont's management agreements is in excess of 40 years while the average remaining length of Delta's management agreements is in excess of 13 years. Since many of the hotels presently managed by Fairmont and Delta are owned by CPHREC and Legacy, the company is somewhat insulated against the loss of these management contracts. As the company continues to expand and acquire more third party contracts, it will however be exposed to the risks normally inherent in such agreements, as well as becoming more dependent on its ability to establish and maintain satisfactory relationships with new and existing investors.

GOVERNMENT REGULATION

CPH&R is subject to laws and regulations relating to environmental matters, the preparation and sale of food and beverages, accessibility for disabled persons, general building codes, employment, working conditions and work permit requirements, among other things.

With respect to potential environmental contamination and remedial action, CPH&R conducts regular reviews of all its properties and those of third party owners to monitor compliance with regulations. Prior to the purchase of any hotel, Legacy is required to have an environmental assessment of the property. CPH&R is not aware of any potential material environmental liabilities incurred in connection with the operation of its hotels for which it could be held liable.

Hotel owners and operators may be subject to claims under the *Americans with Disabilities Act* ("ADA"). The ADA covers all buildings in the U.S. to which access is given to the public. Many of the company's hotels in the U.S. are heritage buildings where access is not easily altered. CPH&R is not aware of any material claims or actions taken and pursued under the ADA at this time. The company endeavours to ensure that new construction undertaken by the company at its owned and managed hotels will comply with the regulations.

CURRENCY EXPOSURE

CPH&R has significant hotel management operations in the U.S., Mexico and the Caribbean while it reports its earnings in Canadian dollars. As a result, the company's earnings could be affected by foreign exchange rate fluctuations, specifically changes in the value of the U.S. Dollar.

In addition, a significant increase in the value of the Canadian dollar may have an impact on the level of foreign demand at the Canadian resorts. However, given that these resorts target an affluent clientele, the risk of a significant decline in foreign demand is reduced.

OUTLOOK

CPH&R expects continued growth in EBITDA, as tourism remains a strong growth industry boosted by favourable demographic trends and a propensity for increased travel. However, it appears that growth in the North American economy is slowing considerably. The impact on CPH&R and the severity of the slowdown are difficult to determine at this time but they could adversely affect operating conditions.

The company plans to continue to build the Fairmont and Delta brands in North America while also looking for expansion opportunities for the Fairmont brand outside of North America. The company expects to invest in additional management contracts and, in some cases, associated real estate assets. In some instances, the sale of current real estate interests will provide a portion of the funding necessary for growth.

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, 2000 and the consolidated statements of income and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian 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 Company as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Prévost Housseloop LLP

Chartered Accountants
February 13, 2001
Toronto, Ontario

FIVE YEAR SUMMARY

(IN THOUSANDS OF
CANADIAN DOLLARS)

	2000	1999	1998	1997	1996
Net income	\$ 143,429	\$ 116,278	\$ 82,833	\$ 172,573	\$ 63,595
Revenues	808,015	747,081	517,980	565,057	565,912
Revenues under management	2,467,111	1,790,282	1,214,643	741,413	661,090
EBITDA	298,845	256,087	174,227	173,042	171,868
Operating income	255,262	222,675	148,567	136,333	115,819
Cash from operations	195,628	129,809	97,061	116,511	107,187
Capital assets (net)	1,586,930	1,301,969	1,306,714	437,098	972,458
Shareholder's equity	\$ 1,005,441	\$ 813,981	\$ 736,680	\$ 242,174	\$ 581,674

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS)

2000

1999

ASSETS

Current assets

Cash and cash equivalents	\$ 60,571	\$ 7,766
Escrow deposits (NOTE 2)	2,193	1,609
Deposits with affiliated company	7,701	5,293
Accounts receivable	82,416	64,973
Materials and supplies	15,993	15,425
Prepaid expenses	7,902	6,440
Owing by affiliated companies	50,823	22,167
Income taxes recoverable	—	18,658

227,599 142,331

Investments in hotel partnerships and corporations (NOTE 3)

79,047 89,474

Investment in Canadian Pacific Management Inc.

29,161 29,161

Investment in Legacy Hotels Real Estate Investment Trust (NOTE 4)

157,525 121,385

Capital assets (NOTE 6)

1,586,930 1,301,969

Other assets (NOTE 7)

414,170 251,082

\$ 2,494,432 \$ 1,935,402

LIABILITIES

Current liabilities

Bank loans	\$ 25,670	\$ —
Accounts payable and accrued liabilities	121,071	100,630
Owing to affiliated companies	4,770	4,653
Income and other taxes payable	21,115	7,955
Current portion of long-term debt (NOTE 8)	2,744	2,448

175,370 115,686

Other liabilities

50,295 48,528

Long-term debt (NOTE 8)

966,444 736,340

Future income taxes

224,816 155,241

Minority interest

72,066 65,626

1,488,991 1,121,421

SHAREHOLDER'S EQUITY

Share capital (NOTE 9)	899,016	899,016
Contributed surplus (NOTE 10)	35,776	29,000
Foreign currency translation adjustments	6,146	(19,278)
Retained earnings (deficit)	64,503	(94,757)

1,005,441 813,981

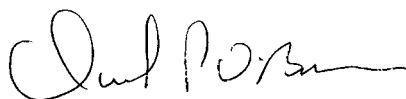
\$ 2,494,432 \$ 1,935,402

Commitments and contingencies (NOTE 18)

Approved by the Board of Directors



Director



Director

Thirty-four

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (DEFICIT)

FOR THE YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS)

	2000	1999
REVENUES – INCLUDING UNAUDITED REVENUES FROM MANAGED HOTELS (NOTE 11)	\$ 2,467,111	\$ 1,790,282
REVENUES – CONSOLIDATED (NOTE 11)	<u>808,015</u>	<u>747,081</u>
HOTEL OWNERSHIP OPERATIONS		
Revenues		
Operating	705,266	667,345
Income from investments (NOTE 12)	29,956	26,200
Other	9,283	9,342
	<u>744,505</u>	<u>702,887</u>
Expenses		
Operating	486,884	473,358
Fees to hotel management operations	20,316	9,110
	<u>507,200</u>	<u>482,468</u>
Operating income before depreciation and amortization	237,305	220,419
Depreciation and amortization	33,749	28,116
OPERATING INCOME FROM HOTEL OWNERSHIP OPERATIONS	<u>203,556</u>	<u>192,303</u>
HOTEL MANAGEMENT OPERATIONS (NOTE 13)		
Revenues	83,826	53,304
Expenses	22,286	17,636
Operating income before depreciation and amortization	61,540	35,668
Depreciation and amortization	9,834	5,296
OPERATING INCOME FROM HOTEL MANAGEMENT OPERATIONS	<u>51,706</u>	<u>30,372</u>
OPERATING INCOME	255,262	222,675
Interest expense, net (NOTE 14)	44,017	46,305
INCOME BEFORE INCOME TAX EXPENSE, MINORITY INTEREST AND GOODWILL CHARGES	<u>211,245</u>	<u>176,370</u>
Income tax expense		
Current	39,532	20,163
Future	18,945	36,612
	<u>58,477</u>	<u>56,775</u>
Minority interest share of income of subsidiary	6,440	857
INCOME BEFORE GOODWILL CHARGES	146,328	118,738
Goodwill charges, net of tax	2,899	2,460
NET INCOME FOR THE YEAR	<u>143,429</u>	<u>116,278</u>
DEFICIT, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	(94,757)	(201,379)
Effect of change in accounting for income taxes (NOTE 15)	15,831	–
Deficit, beginning of year as restated	(78,926)	(201,379)
Dividends on common shares	–	(9,656)
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ 64,503</u>	<u>\$ (94,757)</u>

Thirty-five

CANADIAN PACIFIC HOTELS & RESORTS
ANNUAL REPORT 2000

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS)

	2000	1999
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	\$ 143,429	\$ 116,278
Items not affecting current funds		
Depreciation and amortization	47,254	36,439
Income from investments (NOTE 12)	(29,956)	(26,200)
Future income taxes	18,174	36,045
Foreign currency loss	1,232	107
Other income	(9,283)	(9,342)
(Gain) loss on sale of capital assets and investments	17	(1,807)
Distributions from investments	27,399	20,632
Minority interest share of income of subsidiary	6,440	857
Other	(7,722)	755
Changes in non-cash working capital items	(1,356)	(43,955)
	<u>195,628</u>	<u>129,809</u>
INVESTING ACTIVITIES		
Investment in hotel partnerships and corporations	(11,039)	(24,245)
Investment in Legacy Hotels Real Estate Investment Trust (NOTE 4)	(26,483)	(839)
Additions to capital assets	(131,792)	(122,676)
Proceeds from sale of capital assets	189	64,101
Increase in other assets	(65,018)	(5,055)
Acquisitions (NOTE 5)	(137,206)	(19,360)
Purchase of tax loss (NOTE 15)	(33,746)	(5,452)
	<u>(405,095)</u>	<u>(113,526)</u>
FINANCING ACTIVITIES		
Increase in bank loans	25,670	-
Repayment of note to Legacy Hotels Real Estate Investment Trust	-	(60,500)
Issuance of long-term debt	340,500	43,000
Repayment of long-term debt	(112,514)	(2,294)
Other liabilities	4,309	2,783
Issuance of common shares	-	3,000
Dividends	-	(9,656)
Contributed surplus	6,776	-
	<u>264,741</u>	<u>(23,667)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH BALANCE	523	(2,113)
INCREASE (DECREASE) IN CASH BALANCE DURING THE YEAR	55,797	(9,497)
CASH BALANCE - BEGINNING OF YEAR	14,668	24,165
CASH BALANCE - END OF YEAR	<u>\$ 70,465</u>	<u>\$ 14,668</u>
REPRESENTED BY		
Cash and cash equivalents	60,571	7,766
Escrow deposit	2,193	1,609
Deposits with affiliated company	7,701	5,293
	<u>\$ 70,465</u>	<u>\$ 14,668</u>

Thirty-six

Canadian Pacific Hotels & Resorts Inc. ("CPH&R") is incorporated under the Canada Business Corporations Act and, through its subsidiaries, is engaged in the ownership and management of, and the investment in, hotel and resort properties throughout North America, Bermuda and Barbados. (CPH&R and its subsidiaries are collectively referred to as the "Company").

At December 31, 2000, the Company had 71 hotels and resorts under management, of which the Company had an ownership interest ranging from 20% to 100% in 20 hotels and resorts. The Company earns management and other related fees under long-term management contracts based generally on a percentage of total revenues and operating profits of the managed properties.

NOTE • 7 SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the consolidated accounts of CPH&R, Canadian Pacific Hotels Management Corporation, Delta Hotels Limited ("Delta") and Canadian Pacific Hotels Real Estate Corporation ("CPHREC") all of which are wholly owned and Fairmont Hotels Inc. ("Fairmont") in which the Company has a 67% interest. All significant intercompany transactions and balances have been eliminated.

The Company accounts for its investment in Legacy Hotels Real Estate Investment Trust ("Legacy") and investments in hotel partnerships or corporations in which the Company has significant influence on the equity basis.

REVENUE RECOGNITION

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured. Management fees, both base and incentive, and advisory 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 Company'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 items. 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 Company'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 Company'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.

Capitalization of costs, including interest, on new hotel developments ceases when the hotel is substantially completed and ready for productive use, following the opening of the hotel.

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% – 33-1/3% straight-line
Leasehold improvements	Over the term of the leases

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 installments increasing at the rate of 5% compounded annually.

The cost of the initial complement of the circulating operating equipment, such as linens, china, glassware and silverware, is capitalized and then depreciated by 33-1/3%. Replacements are expensed when placed in service.

MAINTENANCE AND REPAIRS

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

INVESTMENTS IN HOTEL PARTNERSHIPS AND CORPORATIONS

The equity method is used to account for investments in hotel partnerships or corporations in which the Company has significant influence. Investments in hotel partnerships or corporations in which the Company does not have significant influence are accounted for by the cost method.

MANAGEMENT CONTRACTS

Management contracts acquired in the acquisitions of Delta and Fairmont represent the estimated present value of net cash flow expected to be received over the estimated lives of the contracts and are amortized on a straight-line basis reflecting the weighted average of the fixed non-cancellable terms and certain renewal periods of the underlying contracts. Costs incurred to acquire individual management contracts are amortized on a straight-line basis over the term of the contract, including renewal terms where applicable. The Company evaluates the carrying values of the management contracts on an annual basis to determine whether such costs will be recovered from the projected future fee streams on an undiscounted basis. Management contracts would be written down to fair value when declines in value are considered other than temporary.

BRAND NAMES AND TRADEMARKS

The costs allocated to brand names and trademarks are amortized on a straight-line basis over 40 years. The Company evaluates the recoverability of the unamortized cost of brand names and trademarks on an annual basis to determine whether such costs will be recovered from cash flows of the future operations.



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 Company 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 as defined by the Company.

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.

CASH AND CASH EQUIVALENTS

Cash equivalents comprise short-term investments that are highly liquid and have initial terms to maturity of three months or less.

INCOME TAXES

Effective January 1, 2000, the Company adopted the liability method for providing for income taxes retroactively. Under this method, future tax assets and liabilities are recognized based on differences between the bases of assets and liabilities for financial statements and income tax purposes, using substantially enacted tax rates. The effect of changes in income tax rates in future income tax assets and liabilities is recognized in the period that change occurs.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian 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.

NOTE • 2 ESCROW DEPOSITS

Escrow deposits include a deposit for real estate taxes and a capital expenditure reserve based on 3.5% of gross revenues as defined in the loan agreement with The Fairmont Scottsdale Princess. The capital expenditure reserve is to be used solely for the purpose of paying for capital renewals. As at December 31, 2000, total amounts held in escrow deposits were \$2,193 (1999 – \$1,609).

NOTE • 3 INVESTMENTS IN HOTEL PARTNERSHIPS AND CORPORATIONS

	2000	1999
Accounted for on the equity basis		
The Fairmont Chateau Whistler (NOTE 5)	\$ —	\$ 23,996
The Fairmont Hotel Newfoundland	2,008	1,912
Delta Vancouver Suites	4,119	4,312
Pemberton Princess Hotels Limited – Barbados (NOTE 22)	20,423	16,969
	<u>26,550</u>	<u>47,189</u>
Accounted for on the cost basis		
Chateau M. T. Inc.	3,000	3,000
Sun Peaks	5,000	—
LifeCast.com, Inc.	4,661	—
Fairmont Le Manoir Richelieu	39,836	39,285
	<u>52,497</u>	<u>41,285</u>
	<u>\$ 79,047</u>	<u>\$ 89,474</u>

NOTE • 4 INVESTMENT IN LEGACY

During the year, the Company acquired 133,900 units (1999 – 101,100 units) for approximately \$1,105 (1999 – \$839) on the open market and participated in a Legacy equity issue by acquiring 2,900,000 units for \$24,940. As at December 31, 2000, the Company owned 23,073,564 units of Legacy, (1999 – 20,039,664 units), or 34.2% of the units outstanding. (1999 – 33.8%).

NOTE • 5 ACQUISITIONS

THE FAIRMONT CHATEAU WHISTLER

On November 30, 2000, the Company acquired Yamanouchi Real Estate Canada Ltd.'s 80% interest of the partnership which owns The Fairmont Chateau Whistler for \$142,000 cash. The total cost of the hotel including the 20% partnership interest already owned and acquisition expenses of \$2,977, was \$169,196 and has been allocated as follows:

Land	\$ 17,619
Building	123,218
Furniture, fixtures and equipment	13,168
Leasehold interest	12,500
Working capital including cash of \$7,771	2,691
Goodwill	27,325
Future income tax	(27,325)
	<u>\$ 169,196</u>

The acquisition was accounted for using the step purchase method and the results of the hotel were included in the consolidated statement of income from the date of acquisition.



FAIRMONT

On October 1, 1999, the Company completed the acquisition of Fairmont Hotels Management L.P. ("FHMLP"). FHMLP holds the management contracts of seven hotels in the United States and owns the Fairmont brand name.

In exchange for management contracts of hotels and resort properties in North America, Bermuda and Barbados, and the non-exclusive use of the Princess brand name, the Company received 67% of the common shares of Fairmont. In exchange for the shares of FHMLP, the former owners of FHMLP, received 33% of the common shares of Fairmont. Assets transferred by the Company were valued at their predecessor values immediately prior to the transaction. Assets of FHMLP have been reflected in the financial statements at their fair values.

The acquisition was accounted for using the purchase method, and the results of FHMLP were included in the consolidated statement of income from the date of acquisition. The purchase price, including related acquisition costs paid in cash of approximately \$10,000, was allocated as follows:

Management contracts	\$ 42,186
Brand name and trademarks	46,114
Net long-term liabilities	(3,532)
Provision for integration initiatives	(10,000)
	<u>\$ 74,768</u>

NOTE • 6 CAPITAL ASSETS

	2000			1999
	Cost	Accumulated Amortization	Net	Net
Land and land improvements	\$ 173,457	\$ 615	\$ 172,842	\$ 149,910
Buildings and equipment	881,770	174,192	707,578	511,227
Buildings on leased land	713,262	37,170	676,092	625,480
Leasehold improvements	25,447	2,222	23,225	8,574
Operating equipment	10,657	3,464	7,193	6,778
	<u>\$ 1,804,593</u>	<u>\$ 217,663</u>	<u>\$ 1,586,930</u>	<u>\$ 1,301,969</u>

Buildings and equipment includes construction in progress which is not subject to depreciation, totalling \$74,744 (1999 – \$66,789).

NOTE 7 OTHER ASSETS

	2000			1999
	Cost	Accumulated Amortization	Net	Net
Goodwill	\$ 175,772	\$ 8,570	\$ 167,202	\$ 68,740
Management contracts	93,224	8,473	84,751	75,332
Brand names and trademarks	99,226	4,506	94,720	93,929
Deferred charges	25,970	733	25,237	3,757
Long-term advances and other	42,260	–	42,260	9,324
	<u>\$ 436,452</u>	<u>\$ 22,282</u>	<u>\$ 414,170</u>	<u>\$ 251,082</u>

NOTE 8 LONG-TERM DEBT

	2000	1999
AFFILIATED COMPANIES		
6.04%–6.09% revolving term loans owing to Canadian Pacific Securities Limited (“CPSL”) – due on demand (i)	\$ 680,500	\$ 440,000
9.0% promissory note (unsecured) owing to CPSL – due March 21, 2000	–	10,000
8.2% promissory note (unsecured) owing to CPSL – due October 16, 2000	–	100,000
7.5% promissory note (unsecured) owing to CPSL – due May 1, 2001 (i)	100,000	100,000
6.05% promissory note (unsecured) owing to CPSL – due October 16, 2001 (i)	100,000	–
OTHER		
8.84% note owing to Connecticut General Life Insurance Company – maturing August 1, 2016 – US\$29,367 (ii)	44,344	44,394
8.84% note owing to Massachusetts Mutual life Insurance Company – maturing August 1, 2016 – US\$29,367 (ii)	44,344	44,394
	969,188	738,788
Less: Long-term debt maturing within one year	2,744	2,448
	<u>\$ 966,444</u>	<u>\$ 736,340</u>

- (i) The Company has received a commitment from CPSL, an affiliated company, to refinance the two promissory notes when they come due and not to demand repayment of the revolving term loans.
- (ii) The monthly blended principal and interest payments of the two 8.84% notes total US\$578. These notes are secured by substantially all property, plant and equipment and assignment of rents of The Fairmont Scottsdale Princess.

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

2001	\$	2,744
2002		2,998
2003		3,274
2004		3,576
2005		3,905
Thereafter		72,191
	\$	<u>88,688</u>

NOTE • *9* SHARE CAPITAL

AUTHORIZED

An unlimited number of common shares

ISSUED

	2000		1999	
	Shares	Amount	Shares	Amount
Balance – January 1	4,559	\$ 899,016	4,549	\$ 896,016
Issued for cash	–	–	10	3,000
Balance – December 31	<u>4,559</u>	<u>\$ 899,016</u>	<u>4,559</u>	<u>\$ 899,016</u>

NOTE • *10* CONTRIBUTED SURPLUS

During the year, Canadian Pacific Limited (“CPL”), the ultimate parent company, made a cash capital contribution of US\$4,400.

NOTE • *11* REVENUES

It is the policy of the Company to include in income only operating revenues pertaining to owned, including leased, hotels. Total revenues, including revenues from managed hotels, amounted to \$2,467,111 in 2000 (1999 – \$1,790,282).

Consolidated revenues of the Company for the year ended December 31, were as follows:

	2000	1999
Hotel ownership	\$ 744,505	\$ 702,887
Hotel management	83,826	53,304
	<u>828,331</u>	<u>756,191</u>
Fees to hotel management operations	(20,316)	(9,110)
Consolidated revenues	<u>\$ 808,015</u>	<u>\$ 747,081</u>

NOTE • 12 INCOME FROM INVESTMENTS

	2000	1999
Equity in income of The Fairmont Chateau Whistler (NOTE 5)	\$ 2,926	\$ 2,762
Equity in income of The Fairmont Hotel Newfoundland	396	366
Distribution by Fairmont Le Manoir Richelieu	2,500	2,113
Equity in loss of Delta Vancouver Suites	(332)	(349)
Equity in income of Pemberton Princess Hotels Limited – Barbados	2,884	1,452
Equity in income of Legacy	21,582	19,856
	<u>\$ 29,956</u>	<u>\$ 26,200</u>

NOTE • 13 HOTEL MANAGEMENT OPERATIONS

	2000	1999
Revenues		
Fairmont	\$ 65,692	\$ 38,184
Delta	18,134	15,120
	<u>83,826</u>	<u>53,304</u>
Expenses		
Fairmont	17,214	12,093
Delta	5,072	5,543
	<u>22,286</u>	<u>17,636</u>
Operating income before depreciation and amortization		
Fairmont	48,478	26,091
Delta	13,062	9,577
	<u>\$ 61,540</u>	<u>\$ 35,668</u>

NOTE • 14 INTEREST EXPENSE – NET

	2000	1999
Long-term debt	\$ 48,481	\$ 49,403
Other	2,912	721
	<u>51,393</u>	<u>50,124</u>
Less:		
Interest income	3,224	1,525
Interest capitalized	4,152	2,294
	<u>\$ 44,017</u>	<u>\$ 46,305</u>



NOTE • 15 INCOME TAXES

Effective January 1, 2000, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) with respect to accounting for income taxes as described in note 1. The result was to increase capital assets by \$366, increase other assets by \$73,232, increase future tax liability by \$57,767 and decrease the opening deficit by \$15,831. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation.

In December 2000, the Company acquired certain companies from CPL with approximately \$91,049 of non-capital tax losses for \$33,746. These acquired companies were amalgamated with CPHREC on January 1, 2001.

At December 31, 2000, one of the Company’s subsidiaries had losses for income tax purposes of approximately \$16,528, which may be carried forward and applied against its future years’ taxable income when earned. These losses expire in 2004.

NOTE • 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.

At December 31, 2000, the fair values of the two 8.84% notes and prepayment penalty were estimated based on rates currently available for long-term borrowing with similar terms and conditions and approximated their carrying values.

NOTE • 17 EMPLOYEE FUTURE BENEFITS

Effective January 1, 2000, the Company adopted prospectively the CICA recommendations for accounting for employee future benefits. The effect on current earnings from adopting this accounting policy change is immaterial.

Under the new recommendations, the cost of pensions and other retirement benefits earned by employees is actuarially determined by using the projected benefit method prorated on service and management’s best estimate of expected plan performance, salary escalation, retirement ages of employees and health care costs. Market-related values are used for calculating the expected return on plan assets. The projected benefit obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments.

The Company has a number of defined benefit and defined contribution plans under which it provides pension and other benefits to most of its employees. The net expense under these plans is as follows:

Defined benefit plans	\$ (2,803)
Defined contribution plan	3,936
	<u>1,133</u>

Information about the Company's defined benefit plans as at December 31, 2000 in aggregate is as follows:

Accrued benefit obligation	\$ 60,980
Fair value of plan assets	119,483
Funded status-surplus	58,503
Accrued benefit obligation, net of valuation allowance	\$ (4,936)

The balance sheet carrying value is net of a valuation allowance of \$9,955. Included in the accrued benefit obligation is \$9,360 in respect of plans that are not fully funded. Benefits paid under the various plans totalled \$5,457. Employee and employer contributions were not significant.

Weighted average assumptions as of December 31 are as follows:

Discount rate on projected benefit obligation	6.75%
Expected return on plan assets	7.50%
Rate of compensation increase	3.50%

NOTE 18 COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURES

Capital expenditures in year 2001 totalling approximately \$190,085 are planned for existing wholly owned or leased hotels. Contractual commitments in respect of the foregoing projects totalled approximately \$36,100 at December 31, 2000.

LEASES

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

2001	\$ 13,903
2002	13,063
2003	12,065
2004	11,135
2005	10,184
Later years	64,375
	\$ 124,724

Certain land and building leases are subject to additional rent based on a percentage of operating revenues.

GUARANTEES

The Company has guaranteed up to \$5,000 of debt relating to the investment in Chateau M.T. Inc. and up to US\$7,000 of debt in connection with the nearly completed renovation at The Fairmont San Francisco.

NOTE • 19 RELATED PARTY TRANSACTIONS

Certain operating bank balances of the Company are consolidated on a daily basis with CPSL, an affiliated company.

The Company 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, 2000 amounted to \$44,156 (1999 – \$38,776).

As part of normal business activities, certain administrative services are provided at cost within members of the Canadian Pacific Group.

The Company is reimbursed for costs associated with providing central reservation, sales and marketing, central purchasing, accounting, management information, and employee training services to Legacy. The total amount of these reimbursements during the year were \$17,013 (1999 – \$15,602).

Fees received from Legacy for services provided were as follows:

	2000	1999
Management	\$ 22,726	\$ 18,118
Advisory	4,553	4,261
Acquisition	382	–
	<u>\$ 27,661</u>	<u>\$ 22,379</u>

Included in accounts receivable is \$7,728 owing by Legacy.

NOTE • 20 SUPPLEMENTAL CASH FLOW INFORMATION

	2000	1999
Cash interest paid	\$ 47,278	\$ 58,365
Cash interest received	3,224	1,525
Income taxes paid	28,472	12,504

NOTE • 21 RECLASSIFICATION

Certain prior year's figures have been reclassified to conform with the presentation adopted for 2000.

NOTE • 22 SUBSEQUENT EVENTS

On January 12, 2001, the Company acquired the remaining 51% interest in The Fairmont Royal Pavilion and The Fairmont Glitter Bay in Barbados and now owns 100% of the two hotels. On February 1, 2001, the Company also acquired the Kea Lani Resort in Maui, Hawaii and sold The Fairmont Empress and Fairmont Le Château Frontenac for \$305,000 to Legacy.

On February 13, 2001, CPL announced its intention to create five separate publicly-traded companies. Under the proposal, the four other businesses of CPL would be spun off to its shareholders and CPH&R would be the only operating business of CPL. The reorganization is to be implemented by way of a Plan of Arrangement under the Canada Business Corporations Act and is contingent upon shareholder and court approvals, a favourable Canadian income tax ruling and other requisite consents. CPL expects the reorganization to be completed by the end of 2001.

CANADIAN PACIFIC HOTELS & RESORTS INC.

DIRECTORS

David P. O'Brien
Chairman, President
and Chief Executive Officer
Canadian Pacific Limited
Calgary, Alberta

William R. Fatt
Chairman and
Chief Executive Officer
Canadian Pacific Hotels & Resorts Inc.
Toronto, Ontario

Michael A. Grandin
Executive Vice President
and Chief Financial Officer
Canadian Pacific Limited
Calgary, Alberta

Ronald K. Gamey
Executive Vice President
Canadian Pacific Limited
Calgary, Alberta

SENIOR OFFICERS

William R. Fatt
Chairman and Chief Executive Officer

Chris J. Cahill
President and Chief Operating Officer
President, Fairmont Hotels & Resorts

John M. Johnston
Executive Vice President
President, Delta Hotels Limited

M. Jerry Patava
Executive Vice President
and Chief Financial Officer

Thomas W. Storey
Executive Vice President
Business Development and Strategy

Terence P. Badour
Senior Vice President,
General Counsel and Secretary

Neil J. Labatte
Senior Vice President Real Estate
President, Legacy Hotels
Real Estate Investment Trust

