



**INFORMATION  
CONCERNING  
FAIRMONT HOTELS &  
RESORTS INC.**

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## SUMMARY

*The following is a summary of certain information contained elsewhere in this document. This summary is included for convenience only and is qualified entirely by the more detailed information in this document. The term FHR means Fairmont Hotels & Resorts Inc. and, as the context requires, includes its subsidiaries. Except where otherwise indicated, all dollar amounts used in this document are expressed in United States dollars and “\$” and U.S.\$ means United States dollars.*

### Overview

Fairmont Hotels & Resorts Inc. (“FHR”), the new name for CPL following completion of the Arrangement, is one of North America’s leading managers of luxury hotels and resorts. FHR currently has 77 luxury and first class hotels and resorts in its portfolio, representing more than 30,000 rooms. An additional four properties are currently under development. The properties are located in Canada, the United States, Mexico, Bermuda and Barbados. FHR has operated and owned hotels and resorts for 115 years and currently manages properties principally under the Fairmont and Delta brand names.

FHR owns 67% of Fairmont Hotels Inc. (“Fairmont”), North America’s largest luxury hotel and resort management company as measured by rooms under management. Fairmont currently manages more than 18,000 rooms at 37 luxury properties in major city centres and key resort destinations throughout Canada, the United States, Mexico, Bermuda and Barbados. Delta Hotels Limited (“Delta”), a wholly-owned subsidiary of FHR, is Canada’s largest first class hotel and resort management company, with more than 12,000 rooms at 40 managed or franchised hotels and resorts principally located in Canada. In addition to hotel and resort management, FHR has real estate ownership interests ranging from approximately 20% to 100% in 20 properties. This distinctive collection of hotel and resort properties is located primarily in exclusive resort destinations or key North American gateway cities. FHR also has an approximate 34% equity interest in Legacy Hotels Real Estate Investment Trust (“Legacy”), which owns 21 hotels and resorts across Canada. FHR’s intention is to maintain an approximate one-third interest in Legacy as a long-term strategic investment. After completion of the Arrangement, FHR will also own two real estate properties in downtown Toronto and Vancouver which are suitable for commercial or residential development.

Canadian Pacific Hotels & Resorts Inc. (“CPH&R”), FHR’s principal subsidiary, holds FHR’s interests in Fairmont, Delta, Legacy and the owned hotel and resort properties. CPH&R’s operating income before depreciation and amortization (“EBITDA”) of \$195 million in 2000 represented a 17% increase and a 73% increase over 1999 and 1998, respectively. Revenues under management doubled to \$1.6 billion in 2000 from \$0.8 billion in 1998.

### Competitive Strengths

The hotel and resort industry is highly competitive. FHR believes that it has several distinguishing competitive strengths, including the following.

#### *Irreplaceable Collection of Distinctive Assets*

FHR manages and owns a portfolio of unique, high quality hotels and resorts in exceptional locations that provide it with an unrivalled presence throughout North America. FHR’s managed assets principally consist of historic landmark properties in prime locations in major city centres or resort destinations. Its properties are typically renowned assets with long-standing traditions and reputations, such as The Plaza in New York City, The Fairmont San Francisco, The Fairmont Royal York in Toronto and Fairmont Le Château Frontenac in Quebec City. FHR’s portfolio of owned assets are located primarily in exclusive resort locations where their competitive position is strengthened by high barriers to entry, such as The Fairmont Kea Lani Maui in Hawaii; and The Fairmont Banff Springs, The Fairmont Chateau Lake Louise

and The Fairmont Jasper Park Lodge, which are all situated on and surrounded by National Park land owned and controlled by the Government of Canada.

#### *Growing Fairmont Brand Position*

Fairmont enjoys a prominent position in the luxury market segment by virtue of its distinctive collection of 37 properties and a reputation for excellence in people, product and service. The Fairmont name dates back to 1907 and is well known in the United States. In 1999 and 2000, FHR leveraged this strong brand recognition by rebranding 30 properties in Canada, the U.S., Mexico, Bermuda and Barbados as Fairmont properties. Although Fairmont has now become the largest North American luxury hotel management company, management believes that Fairmont is still in the early stages of building consumer awareness of the new Fairmont brand. Many of Fairmont's properties are icons and landmarks in their own right and, as the connection between the brand and these assets is solidified, its strength and value should continue to grow. FHR also believes that there continues to be significant growth potential in the United States and internationally. Currently, 15 of the top 25 U.S. markets do not have a Fairmont property.

#### *Strategic Relationships*

Strategic relationships are an important source of financing and future growth opportunities for FHR's hotel management and ownership businesses. FHR's strategic alliance agreement with and approximate 34% interest in Legacy provides FHR with a potential buyer for FHR's stabilized real estate assets while enabling it to retain long-term management contracts for these properties. In the event of a sale of an owned asset to Legacy, FHR has the ability to participate, through its ownership interest in Legacy and through base and incentive management fees, in approximately 38% to 48% of the future increases in operating profits of the property, in addition to electing to receive a significant portion of its proceeds from the sale on a tax-free basis. This allows FHR to generate significant capital which can be reinvested to fund future growth and expand the Fairmont brand presence. Since the establishment of the strategic alliance, Legacy has purchased six properties from FHR for an aggregate consideration of approximately \$252 million. In addition, FHR has established strong partnerships with institutional and private equity sources, including Kingdom Hotels (USA) Ltd., controlled by His Royal Highness Prince Alwaleed bin Talal bin Abdulaziz Al Saud ("Prince Alwaleed"), and Maritz, Wolff & Co., one of the premier luxury hotel investment firms in the United States. These partners are a potential source of capital to develop luxury and first class hotel and resort properties and can also facilitate FHR's entry into new markets.

#### *Long-Term, Incentive-Based Management Contracts*

Fairmont's incentive-based management contracts have an average term of more than 40 years, which management believes are among the longest in the industry. In 2001, Fairmont expects that less than one-third of its management contracts will earn incentive fees. Within the next two to three years, Fairmont expects substantially all of its current contracts to be earning incentive fees. Almost all of these contracts have set thresholds that do not change over the life of the contract except, in certain cases, for adjustments corresponding to significant capital expenditures. Fairmont participates in up to 30% of earnings above the threshold. Delta's incentive-based management contracts have an average term of more than ten years. In 2001, approximately half of Delta's managed hotels are expected to earn incentive fees.

#### *Focused Acquisition Strategy*

FHR has developed a five-step process for acquiring and repositioning underperforming real estate assets which has allowed it to maximize the revenues it receives from its owned properties, while following its strategy of increasing the management segment of its business. This five-step process consists of: acquiring an asset and managing it in the short term to increase its revenues; rebranding the asset as either a Fairmont or a Delta property; repositioning and enhancing the revenue potential of the asset through

capital investment; aggressively managing the asset to optimize cash flows and operating margins; and monetizing the appreciated value of the stabilized asset by selling it to Legacy or a third party, which enables FHR to use the proceeds to make further acquisitions. FHR's intention is to retain long-term management contracts on the assets it sells.

#### *Proven Management Team*

FHR has a 115-year record of providing outstanding service in the lodging sector. FHR's senior management team has, since 1997, successfully completed the initial public offering of Legacy, the acquisitions of Delta and the Princess hotel portfolio and the creation of Fairmont. Also during this period, FHR has reported strong operating and financial performance, as rooms under management and revenues under management have tripled. The management team is supported by 15 corporate vice presidents and 12 regional vice presidents, and oversees a workforce of over 28,000 employees.

#### *Conservative Capital Structure*

Immediately following the Arrangement, FHR believes it will have a conservative capital structure. FHR's expected total outstanding net debt of approximately \$134 million results in a net debt to total capitalization of approximately 9%, one of the lowest among major publicly-traded North American lodging companies. This capital structure provides FHR with a financial advantage relative to its competitors, enabling FHR to use its balance sheet to aggressively grow its business both through the refurbishment and expansion of existing properties and through selective acquisitions.

#### **Growth Strategy**

In addition to benefiting from the overall growth trends of the luxury segment of the market, FHR intends to grow revenue and profits through a comprehensive growth strategy.

#### *Maximize Operating Performance of Existing Assets*

FHR continues to grow revenues and earnings by maximizing the operating performance of its managed and owned hotels through profit enhancing capital improvements and more focused marketing programs and sales efforts. FHR also anticipates that the Fairmont brand will continue to enhance revenue opportunities through a consistent brand image and increased North American and international recognition of the properties in the portfolio.

FHR also expects that the rebranding of newly acquired assets will leverage the operating performance of its existing properties. Not only will the rebranding enhance the revenue opportunities of the new assets through their immediate association with the Fairmont brand, but, in addition, it will raise the profile of the rest of the Fairmont properties by raising the profile of the Fairmont brand as a whole.

#### *Invest Capital to Expand, Reposition and Refurbish Existing Assets*

A number of FHR's owned and managed assets have recently undergone or are currently undergoing major renovation programs which has affected operating revenues. This extensive renovation program has deferred the realization of incentive fees from the respective properties. Once these renovations are completed, FHR expects that it will earn significant returns on the capital invested.

#### *Broaden Revenue Streams*

Incremental investments in spas, golf courses, residential and retail enhance the Fairmont brand and are also attractive investment opportunities, as the hotel infrastructure and land are already in place. There are currently four new spas under development and an additional four spas planned in the next five years. In addition, FHR operates ten golf courses and has developed expertise in this area. FHR is focusing its

acquisition strategy to target hotels and resorts that already have spas and golf courses in place or have the space to accommodate these facilities. FHR also continues to evaluate opportunities to develop residential accommodations at certain of its resort properties. Several of FHR's existing properties, such as The Fairmont Royal Pavilion and The Fairmont Scottsdale Princess, could accommodate residential development. Fairmont currently has a large portfolio of retail shops within its hotels, providing rental income for FHR. Fairmont will continue to pursue opportunities for future growth in retail revenue, through both leased tenancies and owned and operated stores.

#### *Growth Through New Incentive-Based Management Contracts*

FHR intends to further develop and leverage the Fairmont brand by seeking new single and multiple incentive-based management contract opportunities. FHR believes it has substantial growth potential in the United States as 15 of the top 25 markets currently do not have a Fairmont property. FHR also intends to capitalize on opportunities outside North America.

Delta has proven its ability to secure new management contracts within Canada, with 14 new management contracts being entered into in the past two years. It is anticipated that the Delta brand may also be extended beyond Canada to certain U.S. border states where it has significant brand recognition.

#### *Growth Through Acquisitions*

To support and complement the growth of its management business, FHR intends to use its strong balance sheet and effective management capabilities to make selective acquisitions in key North American gateway cities and exclusive resort destinations. FHR intends to focus on assets that are consistent in size, quality and customer base with FHR's existing portfolio, or that are in protected markets or have significant development potential. The 1998 acquisition of the Princess hotel portfolio highlights FHR's ability to successfully target, acquire, reposition and significantly improve the financial performance of large complex properties. In 2000, EBITDA before management fees from the Princess hotel portfolio was up 32% over 1999. In addition, a significant investment program is underway at most of the Princess properties, which is expected to yield sustainable improvements in operating performance and attractive returns in the future.

Once an acquired asset has been stabilized, FHR will consider selling all or a portion of the asset to Legacy or a third party. As part of the sale agreement, FHR would retain a long-term management contract. The cash generated from the sale of stabilized properties would then be redeployed into new investment opportunities. This strategy was utilized with the sale of The Fairmont Empress and Fairmont Le Château Frontenac where the proceeds were used for the subsequent purchase of The Fairmont Kea Lani Maui, thereby expanding FHR's presence in a key resort market.

FHR also plans to leverage its strong financial position by increasing the use of minority equity investments as opposed to outright acquisitions. Although FHR is focused on expanding primarily in the United States, it will also consider single strategic acquisitions outside of North America. For example, FHR has recently announced a joint venture which involves a minority equity investment and a long-term management contract for The Fairmont Dubai, a 393-room luxury business hotel in Dubai, United Arab Emirates. FHR views this project as the first step in a strategic alliance between the private office of His Highness Dr. Sheikh Sultan bin Khalifa Al Nahyan ("Dr. Sheikh Sultan") and Fairmont to build and operate a number of luxury hotels in the region and other international markets.

## FAIRMONT HOTELS & RESORTS INC.

<b>Issuer:</b>	Fairmont Hotels & Resorts Inc.
<b>Listings:</b>	Upon completion of the Arrangement, it is expected that the common shares of FHR (the "FHR Common Shares") will be listed and posted for trading on The Toronto Stock Exchange (the "TSE") and the New York Stock Exchange (the "NYSE"). If any CPL Preferred Shares remain outstanding following the Arrangement as FHR Preferred Shares and/or FHR Investments Preferred Shares, it is expected that they will be listed and posted for trading on the TSE. See "Description of Share Capital".
<b>Trading Symbols:</b>	FHR for FHR Common Shares, FHR.PR.A for FHR Preferred Shares and FHI.PR.B for FHR Investments Preferred Shares.
<b>Dividend Policy:</b>	FHR currently proposes to pay a dividend of Cdn\$0.05 per FHR Common Share per annum commencing in 2002, but cannot give any assurance that it will be in a position to pay dividends thereafter. See "Risk Factors".
<b>Risk Factors:</b>	An investment in FHR's securities involves certain risks. Prospective investors should carefully consider the information described under "Risk Factors" and all other information included in or incorporated by reference in this document before making investment decisions with regard to FHR's securities. These risks include, but are not limited to: adverse factors generally encountered in the lodging industry; significant regulation of the lodging industry; the risks associated with real estate investments; the subjectivity of hotel and resort development to timing, budgeting and other risks; significant competition in the lodging industry; the fact that failure to obtain new or maintain existing management contracts could adversely affect FHR's results of operations; the fact that FHR's acquisition, expansion and development strategy may be less successful than expected, and therefore growth may be limited; the seasonality of FHR's business and operations; the impact of extreme weather conditions and natural disasters; the potential negative effects on FHR's operations if relationships with employees were to deteriorate; currency fluctuations; debt financing risks; the potential inability of FHR to access financing on as favourable terms as CPL; the potential inability of FHR to obtain the necessary additional capital to finance the growth of its business; the possibility that covenants in FHR's financing agreements could limit its discretion in operating its businesses; the potential inability of FHR to pay dividends; the subjectivity of the market price of FHR's securities to significant fluctuations; the possibility that FHR Common Shares may not be included in certain stock indices; the fact that FHR is subject to indemnification obligations under the Arrangement Agreement; the inability of FHR to assure investors that a judgment of a United States court for liabilities under U.S. securities laws would be enforceable in Canada, or that an original action can be brought in Canada by investors for liabilities under U.S. securities laws; and the fact that forward-looking statements may prove inaccurate.

### CURRENCY EXCHANGE RATES

Except where otherwise indicated, all dollar amounts used in this document are expressed in United States dollars and “\$” and U.S.\$ means United States dollars. The following table sets out (i) the noon rates of exchange for the United States dollar, expressed in United States dollars per Canadian dollar, in effect at the end of the periods indicated, (ii) the average noon exchange rates for these periods and (iii) the high and low exchange rates during these periods, based on the rates quoted by the Bank of Canada.

<u>U.S. Dollar per Canadian Dollar</u>	January 1, 2001 through August 3, 2001	Years ended December 31		
		2000	1999	1998
Noon rate at end of period . . . . .	U.S.\$0.6516	U.S.\$0.6666	U.S.\$0.6929	U.S.\$0.6534
Average noon rate for period . . . . .	0.6519	0.6733	0.6730	0.6743
High for period . . . . .	0.6696	0.6967	0.6929	0.7101
Low for period . . . . .	0.6332	0.6417	0.6542	0.6331

On June 30, 2001, the rate of exchange based on the noon rate as quoted by the Bank of Canada was U.S.\$0.6589. All historical financial information in this document, except for note 24 in the consolidated financial statements of CPH&R, has been converted into United States dollars using this exchange rate.

### GLOSSARY

Capitalized words and terms not defined in this document have the meanings ascribed to such words and terms in Part I of the Circular.



**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**SUMMARY INCOME STATEMENT AND**  
**OTHER FINANCIAL INFORMATION**

(Thousands of dollars)

	Six months ended June 30,		Year ended December 31,		
	2001	2000	2000	1999	1998
	(unaudited)	(unaudited)			
<b>SUMMARY INCOME STATEMENT</b>					
<b>Revenues</b>					
Hotel ownership operations . . . . .	\$ 261,912	\$ 222,620	\$ 464,694	\$ 439,708	\$ 303,612
Management operations . . . . .	17,448	17,167	41,846	29,119	20,449
Income from investments and other . .	7,624	10,339	24,333	21,948	15,900
	<u>286,984</u>	<u>250,126</u>	<u>530,873</u>	<u>490,775</u>	<u>339,961</u>
<b>Expenses</b>					
Hotel ownership operations . . . . .	185,601	157,509	320,804	311,892	218,892
Management operations . . . . .	7,156	8,067	14,684	11,620	8,034
Amortization . . . . .	24,986	18,591	39,760	32,019	22,446
	<u>217,743</u>	<u>184,167</u>	<u>375,248</u>	<u>355,531</u>	<u>249,372</u>
<b>Operating income . . . . .</b>	<b>69,241</b>	<b>65,959</b>	<b>155,625</b>	<b>135,244</b>	<b>90,589</b>
<b>Other (income) and expenses — net<sup>(1)</sup> . .</b>	<b>7,713</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Interest expense — net . . . . .</b>	<b>21,966</b>	<b>15,368</b>	<b>31,246</b>	<b>30,736</b>	<b>21,217</b>
<b>Income before income tax expense, non-controlling interest and goodwill charges . . . . .</b>	<b>39,562</b>	<b>50,591</b>	<b>124,379</b>	<b>104,508</b>	<b>69,372</b>
<b>Income tax expense (recovery) . . . . .</b>	<b>(827)</b>	<b>11,528</b>	<b>32,934</b>	<b>33,051</b>	<b>18,616</b>
<b>Non-controlling interest share of income of subsidiary . . . . .</b>	<b>1,834</b>	<b>2,054</b>	<b>4,243</b>	<b>565</b>	<b>—</b>
<b>Income before goodwill charges . . . . .</b>	<b>38,555</b>	<b>37,009</b>	<b>87,202</b>	<b>70,892</b>	<b>50,756</b>
<b>Goodwill charges . . . . .</b>	<b>1,517</b>	<b>1,133</b>	<b>2,419</b>	<b>1,994</b>	<b>793</b>
<b>Income taxes thereon . . . . .</b>	<b>(284)</b>	<b>(177)</b>	<b>(508)</b>	<b>(373)</b>	<b>(166)</b>
<b>Net income for the period . . . . .</b>	<b>\$ 37,322</b>	<b>\$ 36,053</b>	<b>\$ 85,291</b>	<b>\$ 69,271</b>	<b>\$ 50,129</b>
<b>OTHER FINANCIAL INFORMATION</b>					
<b>Revenues under management<sup>(2)</sup> . . . . .</b>	<b>\$ 813,449</b>	<b>\$ 779,303</b>	<b>\$1,625,559</b>	<b>\$1,179,602</b>	<b>\$ 800,318</b>
<b>EBITDA . . . . .</b>	<b>94,227</b>	<b>84,550</b>	<b>195,385</b>	<b>167,263</b>	<b>113,035</b>
<b>Operating cash flow . . . . .</b>	<b>20,779</b>	<b>30,019</b>	<b>106,663</b>	<b>81,937</b>	<b>51,206</b>
<b>Capital expenditures . . . . .</b>	<b>53,297</b>	<b>33,913</b>	<b>86,837</b>	<b>80,830</b>	<b>33,610</b>
<b>Total assets . . . . .</b>	<b>1,759,417</b>	<b>1,335,275</b>	<b>1,572,341</b>	<b>1,248,658</b>	<b>1,165,141</b>
<b>Cash and cash equivalents . . . . .</b>	<b>8,963</b>	<b>10,434</b>	<b>41,355</b>	<b>6,177</b>	<b>13,015</b>
<b>Total debt . . . . .</b>	<b>805,058</b>	<b>506,877</b>	<b>655,505</b>	<b>486,780</b>	<b>463,189</b>
<b>Shareholder's equity . . . . .</b>	<b>617,218</b>	<b>523,006</b>	<b>593,115</b>	<b>486,608</b>	<b>443,017</b>

(1) Other income and expense comprises non-recurring items. See note 3 in the Consolidated Financial Statements of CPH&R.

(2) Revenues under management (unaudited) comprise all revenues generated by all CPH&R managed and owned hotels.

## SUMMARY OPERATING STATISTICS

### Six-month periods ended June 30, 2001 and June 30, 2000

Comparable Hotels and Resorts are considered to be properties that were fully open under FHR management for at least the entire current and prior period. Given the strategic importance of the acquisition of The Fairmont Kea Lani Maui, it has been included in FHR's operating statistics in the following chart on a pro forma basis as if owned since the beginning of the prior period. Comparable Hotels and Resorts statistics exclude properties under significant renovation that would have a significant adverse effect on the properties' primary operations. For the six-month periods ended June 30, 2001 and June 30, 2000, The Fairmont Southampton Princess, The Fairmont Hamilton Princess and The Fairmont Pierre Marques have been excluded from the Comparable Hotels and Resorts data.

	Six months ended June 30,	
	2001	2000
<b>FAIRMONT MANAGED COMPARABLE HOTELS AND RESORTS</b>		
<b>Worldwide</b>		
RevPAR <sup>(1)</sup> .....	\$115.02	\$113.81
ADR <sup>(2)</sup> .....	174.72	165.34
Occupancy .....	65.8%	68.8%
<b>Canada</b>		
RevPAR .....	\$ 81.54	\$ 79.93
ADR .....	125.65	119.24
Occupancy .....	64.9%	67.0%
<b>U.S. and Other</b>		
RevPAR .....	\$159.39	\$158.70
ADR .....	237.62	222.81
Occupancy .....	67.1%	71.2%
<b>DELTA MANAGED COMPARABLE HOTELS AND RESORTS</b>		
<b>Canada</b>		
RevPAR .....	\$ 55.89	\$ 52.90
ADR .....	83.36	80.29
Occupancy .....	67.1%	65.9%

	Six months ended June 30,	
	2001	2000
<b>OWNED COMPARABLE HOTELS AND RESORTS</b>		
<b>Worldwide</b>		
RevPAR .....	\$127.21	\$127.42
ADR .....	193.83	186.76
Occupancy .....	65.6%	68.2%
<b>Canada</b>		
RevPAR .....	\$116.85	\$116.61
ADR .....	181.31	175.09
Occupancy .....	64.4%	66.6%
<b>U.S. and Other</b>		
RevPAR .....	\$170.12	\$168.64
ADR .....	265.33	259.64
Occupancy .....	64.1%	65.0%

(1) RevPAR means average room revenue generated per available room.

(2) ADR means average room revenue generated per occupied room (or guest night).

#### Annual periods ended December 31, 2000, 1999 and 1998

Comparable Hotels and Resorts are considered to be properties that were fully open under FHR management for at least the entire current and prior period. Given the strategic importance of the creation of Fairmont and the acquisitions of Delta, the Princess hotel portfolio and The Fairmont Kea Lani Maui, they have been included in FHR's operating statistics on a pro forma basis as if owned since January 1, 1998. Comparable Hotels and Resorts statistics exclude properties under significant renovation which would have a significant adverse effect on the properties' primary operations. For the annual periods of 2000 versus 1999 and 1999 versus 1998, no properties were excluded as a result of significant renovations.

	Year ended December 31,		
	2000	1999	1998
<b>FAIRMONT MANAGED COMPARABLE HOTELS AND RESORTS</b>			
<b>Worldwide</b>			
RevPAR .....	\$116.77	\$109.32	\$104.41
ADR .....	170.30	156.42	147.61
Occupancy .....	68.6%	69.9%	70.7%
<b>Canada</b>			
RevPAR .....	\$ 88.73	\$ 87.06	\$ 79.17
ADR .....	127.71	118.01	107.25
Occupancy .....	69.5%	73.8%	73.8%
<b>U.S. and Other</b>			
RevPAR .....	\$162.58	\$149.13	\$148.33
ADR .....	223.09	204.87	198.46
Occupancy .....	72.9%	72.8%	74.7%

	Year ended December 31,		
	2000	1999	1998
<b>DELTA MANAGED COMPARABLE HOTELS AND RESORTS</b>			
<b>Canada</b>			
RevPAR .....	\$ 56.30	\$ 55.39	\$ 52.76
ADR .....	81.97	78.59	72.48
Occupancy .....	68.7%	70.5%	72.8%
<b>OWNED COMPARABLE HOTELS AND RESORTS</b>			
<b>Worldwide</b>			
RevPAR .....	\$119.60	\$108.37	\$103.26
ADR .....	181.84	165.10	156.44
Occupancy .....	65.8%	65.6%	66.0%
<b>Canada</b>			
RevPAR .....	\$114.20	\$103.91	\$ 99.61
ADR .....	174.62	158.98	151.19
Occupancy .....	65.4%	65.4%	65.9%
<b>U.S. and Other</b>			
RevPAR .....	\$136.10	\$117.01	\$118.65
ADR .....	225.76	213.81	208.12
Occupancy .....	60.3%	54.7%	57.0%

## SUMMARY CONSOLIDATED CAPITALIZATION

The following table sets out the consolidated capitalization of FHR as at December 31, 2000 and June 30, 2001, as reflected in the consolidated financial statements of CPH&R and as of June 30, 2001 after giving effect to the Arrangement. This table should be read in conjunction with the consolidated financial statements of CPH&R and the pro forma consolidated financial statements of FHR contained in this document.

<u>Capital</u>	<u>Outstanding as at December 31, 2000<sup>(1)</sup></u>	<u>Outstanding as at June 30, 2001<sup>(1)</sup></u>	<u>Outstanding as at June 30, 2001 after giving effect to the Arrangement (Pro forma)<sup>(2)</sup></u>
	(thousands of dollars)		
<b>Debt capital</b>			
Inter-company debt . . . . .	\$ 580,154	\$ 697,898	\$ —
Third party debt . . . . .	75,351	107,160	163,629
<b>Share capital<sup>(3)</sup></b>			
Common shares . . . . .	592,354	592,354	1,164,943 (79,085,701 shares) <sup>(4)</sup>
Contributed surplus . . . . .	4,359	4,359	57,420
Foreign currency translation adjustments . . . .	4,050	14,551	44,554
Retained earnings (deficit) . . . . .	(7,648)	5,954	74,364
<b>Total capitalization . . . . .</b>	<u>\$1,248,620</u>	<u>\$1,422,276</u>	<u>\$1,504,910</u>

(1) Based on CPH&R. See the Consolidated Financial Statements of CPH&R.

(2) Based on FHR. See the Pro forma Consolidated Financial Statements of FHR.

(3) After giving effect to the Arrangement, the authorized capital of FHR will consist of an unlimited number of FHR Common Shares and an unlimited number of FHR Preferred Shares. This table assumes that no FHR Preferred Shares or FHR Investments Preferred Shares are outstanding after giving effect to the Arrangement.

(4) Based on 316,342,807 CPL Common Shares issued and outstanding as at June 30, 2001. The actual number of FHR Common Shares issued and outstanding after giving effect to the Arrangement may differ as a result of the treatment of fractional interests of such shares. See "Effects of the Arrangement — Treatment of Fractional Interests" in Part I of the Circular.

## FORWARD-LOOKING INFORMATION

This document contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (United States) relating, but not limited, to operations, anticipated financial performance, business prospects and strategies of FHR. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “expect”, “plan”, “intend” or similar words suggesting future outcomes or statements regarding an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt levels and incentive fees or revenues, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance.

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, the forward-looking information of FHR involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. These factors include, but are not limited to: adverse factors generally encountered in the lodging industry; significant regulation of the lodging industry; the risks associated with real estate investments; the subjectivity of hotel and resort development to timing, budgeting and other risks; significant competition in the lodging industry; the fact that failure to obtain new or maintain existing management contracts could adversely affect FHR’s results of operations; the fact that FHR’s acquisition, expansion and development strategy may be less successful than expected, and therefore growth may be limited; the seasonality of FHR’s business and operations; the impact of extreme weather conditions and natural disasters; the potential negative effects on FHR’s operations if relationships with employees were to deteriorate; currency fluctuations; debt financing risks; the potential inability of FHR to access financing on as favourable terms as CPL; the potential inability of FHR to obtain the necessary additional capital to finance the growth of its business; the possibility that covenants in FHR’s financing agreements could limit its discretion in operating its businesses; the potential inability of FHR to pay dividends; the subjectivity of the market price of FHR’s securities to significant fluctuations; the possibility that FHR Common Shares may not be included in certain stock indices; the fact that FHR is subject to indemnification obligations under the Arrangement Agreement; and the inability of FHR to assure investors that a judgment of a United States court for liabilities under U.S. securities laws would be enforceable in Canada, or that an original action can be brought in Canada by investors for liabilities under U.S. securities laws.

FHR cautions that the above list of important factors is not exhaustive. FHR undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise, or the list of factors affecting this information.

## RISK FACTORS

This section describes some, but not all, of the risks associated with an investment in FHR’s securities. The order in which these risks are listed does not necessarily indicate their relative importance. Investors should carefully consider these risks in addition to the other information contained in this document.

If any event arising from these risks occurs, FHR’s business, prospects, financial condition, results of operations or cash flows could be materially adversely affected, and therefore the market price of FHR’s securities could decline.

### **FHR’s operations are subject to adverse factors generally encountered in the lodging industry.**

FHR manages and owns hotels and resorts in both the luxury and first class segments of the lodging industry. This subjects FHR to the operating risks inherent in the industry. Besides the specific conditions discussed in more detail below, these risk factors include:

- cyclical downturns arising from changes in general and local economic conditions;
- varying levels of demand for rooms and related services caused by changes in popular travel patterns and changes in the cost and availability of transportation;

- periodic local oversupply of guest accommodations, which may adversely affect occupancy rates and actual room rates achieved;
- competition from other luxury and first class hotels and resorts;
- the recurring need for the renovation, refurbishment and improvement of hotel and resort properties;
- changes in wages, prices, construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- the availability of financing for operating or capital requirements;
- seasonal variations in cash flow; and
- other factors including natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

The effect of these factors varies among FHR's hotels and resorts based on their geographic diversity and mix between management and ownership businesses.

**The lodging industry is subject to significant regulation.**

FHR is subject to numerous laws and regulations in all of the jurisdictions in which it operates, including those relating to the preparation and sale of food and beverages, such as health and liquor licensing laws. FHR's properties are also subject to laws and regulations governing relationships with employees in such areas as minimum wage and maximum working hours, overtime, working conditions, hiring and terminating of employees and work permits. Furthermore, the success of FHR's strategy to expand its existing properties or open newly constructed properties is contingent upon, among other things, receipt of all required licences, permits and authorizations, including local land use permits, building and zoning permits, health and safety permits and liquor licences. Changes or concessions required by regulatory authorities could also involve significant additional costs and delay or prevent completion of construction or opening of a project. As a result of the geographic diversity of FHR's business, these regulatory matters arise in a number of jurisdictions, many of which have distinctive regulatory regimes.

As the current or previous owner or operator of certain hotels and resorts, FHR could also be liable for the clean-up of contamination and other corrective actions under various laws, ordinances and regulations relating to environmental matters. These laws, ordinances and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the condition requiring the environmental response. The presence of contamination from hazardous or toxic substances, or the failure to remediate a contaminated property properly may affect an owner's ability to sell or rent the property, to use the property for its intended purpose, or to borrow using the property as collateral. In addition, persons such as FHR who arrange for the disposal or treatment of hazardous or toxic substances may be liable for the cost of removal or remediation of substances at the disposal or treatment facility regardless of whether the facility is or was owned or operated by them. As the manager or owner of various hotels and resorts, FHR could be held liable for the cost of remedial action with respect to environmental matters. Each year, every property, whether managed, franchised or owned, is required to complete an environmental questionnaire which covers such items as the training of employees in the handling and disposal of hazardous materials, whether there have been any environmental incidents and, if so, the remedial action taken, as well as any environmental initiatives introduced by the hotel or resort. This questionnaire also identifies any new laws or regulations being imposed by local, state or provincial governments and a property's proposed response to such laws or regulations. FHR is not aware of any potential material environmental liabilities for which it will be responsible with respect to any of the properties which it currently or has previously managed or owned.

Under the United States *Americans with Disabilities Act* and similar state legislation (referred to in this document as the “ADA”), all public accommodations are required to meet various requirements related to access and use by disabled persons. If a U.S. court or administrative agency determines that any of FHR’s hotels are not in compliance with the ADA, the result could be a judicial or administrative order requiring compliance, imposition of a fine or an award of damages to private litigants, including possible class damages. FHR has responsibilities under the ADA for both its owned and managed hotels in the United States. However, under the management agreements for FHR’s managed hotels in the U.S., costs associated with the ADA are generally borne by the owner.

**Real estate investments are subject to numerous risks.**

As FHR owns and leases hotels and resorts, it is subject to the risks that generally relate to investments in real property. The investment returns available from equity investments in real estate depend in large part on the amount of income earned and capital appreciation generated by the related properties, as well as the expenses incurred. In addition, a variety of other factors affect income from properties and real estate values, including governmental regulations, real estate, zoning, tax and eminent domain laws, interest rate levels and the availability of financing. For example, new or existing real estate, zoning or tax laws can make it more expensive and/or time-consuming to develop real property or expand, modify or renovate properties. When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult both to acquire and to sell real property. Finally, governments can, under eminent domain laws, expropriate or take real property for less compensation than an owner believes the property is worth. Any of these factors could have a material adverse impact on FHR’s results of operations or financial condition, as well as on its ability to make distributions, if any, to its shareholders. In addition, as FHR’s equity real estate investments are in the luxury and first class segments and are to some extent located outside of North America, they may be relatively difficult to sell quickly. Further, any additional properties FHR acquires may be subject to the same risks. If FHR’s properties do not generate revenue sufficient to meet operating expenses, including debt service and capital expenditures, its income will be adversely affected.

**Hotel and resort development is subject to timing, budgeting and other risks.**

FHR intends to develop properties as suitable opportunities arise. New project development has a number of associated risks, including construction delays or cost overruns that may increase project costs; development costs incurred for projects that are not pursued to completion; so-called “acts of God” such as earthquakes, hurricanes, floods or fires that could adversely impact a project; and governmental restrictions on the nature or size of a project. FHR can make no assurances that any development project will be completed on time or within budget.

**There is a great deal of competition in the lodging industry.**

There is intense competition between the operators of both luxury and first class hotels for guests and for the acquisition of new management contracts, hotels and resorts. Competition for guests is based primarily on brand name recognition, convenience of location, quality of the property, room rates and the range and quality of food, services and amenities offered. Demographic, political or other changes in one or more of FHR’s markets could adversely affect the convenience or desirability of its properties.

FHR also competes for management contracts and acquisition opportunities with other luxury and first class hotel and resort managers and owners who may have substantially greater financial resources. This competition may have the effect of reducing the number of suitable investment opportunities available to FHR and increasing its acquisition costs.



**Failure to obtain new or maintain existing management contracts could adversely affect FHR's results of operations.**

Management contracts expire, or are acquired, terminated or renegotiated in the normal course of business. FHR manages hotels and resorts for various third party hotel and resort owners subject to the terms of each property's management contract. These contracts can generally be terminated by the non-defaulting party upon default in payment or unremedied failure to comply with the terms of the contract. Typically, FHR's management contracts are subject to economic performance tests that, if not met or remedied, could allow a contract to be terminated by the owner prior to the expiration of its term. Failure to maintain the standards specified in the contract or to meet the other terms and conditions of a contract could result in the loss or cancellation of a management contract. Some management contracts can also be terminated if the property is sold by the owner to a new owner that does not want to retain the existing contract. In certain cases, these contracts provide for a termination pay-out upon cancellation of the contract.

In many jurisdictions, in the event of bankruptcy or insolvency proceedings in respect of a hotel or resort, a management contract may be subject to termination or may not be enforceable against a trustee in bankruptcy or other similar representative of the owner. In such circumstances, the management company would generally have an unsecured claim for breach of contract against the owner of the property or its estate.

Further, in the event of enforcement proceedings by a secured lender in respect of a hotel or resort, a management contract may not be enforceable by FHR against the lender unless, to the extent permitted by applicable bankruptcy or insolvency laws, the lender has executed a non-disturbance agreement. Generally, FHR attempts to obtain non-disturbance agreements with lenders to the owners of hotels or resorts that FHR manages. However, in the absence of a non-disturbance agreement, the risk of loss of a management contract increases when debt that cannot be adequately serviced is incurred by the property's owner at the hotel or resort level.

Both Fairmont and Delta manage properties for third party owners. The average remaining length of Fairmont's management contracts is approximately 43 years while the average remaining length of Delta's management contracts is approximately 14 years. Approximately 65% of Fairmont and Delta's management revenues are insulated against the potential loss of these management contracts as 41 of the hotels and resorts presently managed by Fairmont and Delta are directly or indirectly owned by FHR or Legacy.

**FHR's acquisition, expansion and development strategy may be less successful than expected, and therefore growth may be limited.**

FHR intends to increase revenues and net income by increasing the number of hotels and resorts under management through the acquisition of new properties, the expansion of existing properties and new development. FHR's ability to successfully pursue new growth opportunities will depend on its ability to identify appropriate management opportunities and properties suitable for acquisition and expansion, to negotiate management or construction contracts or purchases on satisfactory terms, to obtain the necessary financing and permits and to integrate new management contracts or properties into its operations.

**FHR's business and operations are seasonal.**

FHR's hotels and resorts are affected by normal recurring seasonal patterns. The Canadian and U.S. city centre properties tend to experience a slowdown in demand during the December through March period. As a result, the majority of these properties typically incur a loss in the first quarter of each year. This negative impact on operations at the city centre hotels is offset, to some degree, by increased travel to FHR's warm weather and ski resorts in these months and may, in the future, be offset to a greater extent as FHR's portfolio of resort properties increases.

**Operations may be adversely affected by extreme weather conditions and the impact of natural disasters.**

FHR operates properties in a variety of locales, some of which are subject to extreme weather patterns which may affect the hotels as well as customer travel. Extreme weather conditions can, from time to time, have a major adverse financial impact upon individual properties or particular regions. However, the effect of any particular event is mitigated by the geographic diversity of FHR's hotel and resort portfolio.

Properties may also be vulnerable to the effects of destructive forces, such as earthquakes, fire, storms and flooding. Although FHR's properties are insured against property damage, damages resulting from so-called "acts of God" or otherwise may exceed the limits of the insurance coverage or be outside the scope of that coverage.

**FHR's ability to operate its facilities may be adversely affected if relationships with employees were to deteriorate.**

Relations with employees in various countries, including the over 14,000 employees represented by 20 labour unions, could deteriorate due to disputes related to, among other things, wage or benefit levels or FHR's response to changes in government regulation of workers and the workplace. FHR's operations rely heavily on employees, whether they are employed directly or supervised by Fairmont or Delta, and these employees' ability to provide high-quality personal service to guests. Any labour shortage or stoppage caused by disagreements with employees, including those represented by labour unions, could adversely affect FHR's ability to provide these services and could result in the temporary closure of a particular hotel or resort, reduce occupancy and room revenue or potentially damage FHR's reputation. Management of FHR is confident that FHR's relationships with employees are generally favourable. Various programs maintained by Fairmont and Delta contribute to these relationships and mitigate to some extent against potential labour disputes.

**Currency fluctuations may have a material adverse effect on FHR's financial statements and/or operating margins.**

FHR has significant hotel and resort management operations in Canada, the United States, Mexico, Bermuda and Barbados and records sales and liabilities in the currencies of these jurisdictions, while it reports earnings in U.S. dollars. As a result, FHR's earnings and financial position could be affected by foreign exchange rate fluctuations, specifically changes in the value of the U.S. dollar, through both (i) translation risk, which is the risk that financial statements for a particular period or as of a certain date depend on the prevailing exchange rates of the various currencies against the U.S. dollar; and (ii) transaction risk, which is the risk that the currency of costs and liabilities fluctuates in relation to the currency of revenues and assets, which fluctuation may adversely affect operating margins.

With respect to translation risk, even though the fluctuations of currencies against the U.S. dollar can be substantial and therefore significantly impact comparisons with prior periods, the translation impact is a reporting consideration and does not affect the underlying results of operations, as is the case with transaction risk. FHR endeavours to match foreign currency revenues and costs, and assets and liabilities, to provide a natural hedge against translation and transaction risks, although this is not a perfect hedge.

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

**FHR is subject to a number of risks associated with debt financing.**

As a result of incurring debt, FHR is subject to a number of risks associated with debt financing, including the risk that cash flow from operations will be insufficient to meet required payments of principal

and interest; the risk that (to the extent that it maintains floating rate indebtedness) interest rates will fluctuate; and risks resulting from the fact that the agreements governing loan and credit facilities contain covenants imposing certain limitations on FHR's ability to acquire and dispose of assets.

Although it anticipates that it will be able to repay or refinance existing indebtedness and any other indebtedness when it matures, there can be no assurance that FHR will be able to do so or that the terms of such refinancings will be favourable. FHR's leverage may have important consequences. For example, FHR's ability to obtain additional financing for acquisitions, working capital, capital expenditures or other purposes, if necessary, may be impaired or financing may not be available on favourable terms. A substantial decrease in operating cash flow or an increase in expenses could make it difficult for FHR to meet its debt service requirements and force it to modify its operations. FHR may have higher levels of debt than some of its competitors, placing it at a competitive disadvantage to those competitors with lower amounts of indebtedness and/or higher credit ratings.

**Financing may not be available to FHR on as favourable terms as it was to CPL.**

In the past, a significant portion of FHR's capital needs were satisfied by CPL's relatively strong access to financial markets. This accessibility was a product of CPL's credit rating and diversity of cash flow as a company with investments in several different industries. Following the Arrangement, FHR's access to debt financing will be subject to its own operating strength and financial condition and may not be available on terms as favourable as it was to CPL. However, FHR previously had to compete for capital from its parent which owned four other operating businesses. As a result of the Arrangement, FHR will have direct access to debt and equity financial markets and will be able to issue its own equity securities to vendors of real estate as partial consideration for acquisitions.

**There can be no assurance that FHR will be able to obtain the necessary additional capital to finance the growth of its business.**

The acquisition and expansion of hotels and resorts, as well as the ongoing renovations, refurbishment and improvements required to maintain or upgrade existing properties, are capital intensive. Such costs are funded from operating cash flow and financings. The availability of future borrowings and access to the capital markets for financing depends on prevailing market conditions and the acceptability of financing terms offered. FHR cannot ensure that future debt or equity financings will be available, or available on acceptable terms, in an amount sufficient to fund its needs. In addition, an inability to obtain financing for a project could cause cancellation or short-term interruption of construction or development of projects.

**Covenants in FHR's financing agreements could limit its discretion in operating its businesses.**

FHR's financing agreements contain covenants which include limits on additional debt secured by mortgaged properties, limits on liens on property, minimum EBITDA to interest coverage ratios and limits on mergers, asset sales and capital expenditures. Future financing agreements may contain similar, or even more restrictive, provisions and covenants. If FHR fails to comply with the restrictions in present or future financing agreements, a default may occur. A default could allow creditors to accelerate the related debt as well as any other debt to which a cross-acceleration or cross-default provision applies. A default could also allow creditors to foreclose on the properties securing such debt. Credit facilities typically require the repayment of funds or cash flow sweeps when certain coverage ratios are not met.

**FHR does not plan to pay dividends until fiscal year 2002.**

FHR's present intention is to pay a modest dividend commencing in 2002, but it cannot give any assurances that it will be in a position to pay dividends thereafter. FHR currently proposes to pay a dividend of Cdn\$0.05 per FHR Common Share per annum.

**The market price of FHR's securities could be subject to significant fluctuations.**

The market price of FHR's securities could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the market price of FHR's securities.

The prices at which FHR's securities may trade cannot be predicted. The trading price will be determined by the market place and may be influenced by many factors including, among others, the depth and liquidity of the market for FHR's securities, investor perception of the hotel and resort industry, FHR's earnings, financial condition and dividend policy, as well as general economic and market conditions. In addition, during the period immediately after the Effective Date of the Arrangement when FHR's securities are being distributed, an orderly trading market may not have developed, with the result that prices in this period may fluctuate more than would be the case if an orderly trading market existed.

**FHR Common Shares may not be included in certain indices.**

At the time the Arrangement was announced, CPL Common Shares were included in the S&P/TSE 60<sup>®</sup> Stock Index (the "S&P 60"), the TSE 100 Index<sup>®</sup> (the "TSE 100") and the TSE 300 Composite Index<sup>®</sup> (the "TSE 300") which are some of the primary indices for the TSE. Some institutional investors and investment funds limit their investments to securities included in these indices. If FHR Common Shares are not included in these indices after the Arrangement, some of these investors and investment funds may sell their FHR Common Shares. However, FHR Common Shares will most likely qualify for inclusion in the TSE 300 following completion of the Arrangement and may also be eligible for inclusion in the TSE 100 at the next revision date or as openings arise.

CPL Shareholders who receive FHR Common Shares, FHR Preferred Shares and/or FHR Investments Preferred Shares in the Arrangement are generally free to sell their shares at any time they choose and may elect to do so following the Arrangement. There can be no assurance that these sales, if they occur, will not have an adverse effect on the market price of FHR Common Shares, FHR Preferred Shares and/or FHR Investments Preferred Shares.

**FHR is subject to indemnification obligations under the Arrangement Agreement**

In connection with the Arrangement, CPL and CPH&R have entered into an arrangement agreement (the "Arrangement Agreement") which contains a number of representations, warranties and covenants of those parties, including an agreement by each of the parties to indemnify and hold harmless each other party to the Arrangement Agreement against any loss suffered or incurred resulting from a breach of a representation, warranty or covenant, a covenant that each party will not take any action, omit to take any action or enter into any transaction that could adversely impact the Tax Rulings in Canada or the U.S. including government opinions and related opinions of counsel and the assumptions upon which they were made, and the obligation to undertake the transactions contemplated in the Plan of Arrangement. With respect to Canadian taxation, in addition to various transactions that the respective parties are prohibited from undertaking prior to the implementation of the Arrangement, after the implementation of the Arrangement, no party will be permitted to dispose of or exchange more than 10% of its assets or, among other things, undergo an acquisition of control without severe adverse consequences where such disposition or control acquisition is for Canadian tax purposes "part of a series of transactions or events" that includes the Arrangement, except in limited circumstances. Should CPL breach its representations and warranties or fail to satisfy its covenants, FHR would be obligated to indemnify the other parties to the Arrangement Agreement for losses incurred in connection with such breach or failure. In addition, FHR is required to indemnify the parties to the Arrangement Agreement against any loss which they may incur resulting from a claim relating to CPL (excluding CPR, CP Ships, Fording and PanCanadian) or CPH&R, whether arising prior to or after the completion of the Arrangement. An indemnification claim against

FHR pursuant to the provisions of the Arrangement Agreement could have a material adverse effect upon FHR.

**FHR cannot assure investors that a judgment of a United States court for liabilities under U.S. securities laws would be enforceable in Canada, or that an original action can be brought in Canada by investors for liabilities under U.S. securities laws.**

FHR is a Canadian company. A majority of its directors and officers are residents of Canada and most of FHR’s assets and the assets of its directors and officers are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States on FHR or its directors and officers or enforce judgments obtained in U.S. courts against FHR or its directors and officers based upon the civil liability provisions of American federal or state securities laws.

FHR has been advised by counsel that there is doubt as to whether a judgment of a U.S. court based solely upon the civil liability provisions of American federal or state securities laws would be enforceable in Canada against it or its directors and officers. There is also doubt as to whether an original action could be brought in Canada against FHR or its directors and officers to enforce liabilities based solely upon American federal or state securities laws.

**Forward-looking statements may prove inaccurate.**

FHR has made forward-looking statements in this document that are subject to risks and uncertainties. Investors should note that many factors, some of which are discussed elsewhere in this document, could affect future financial results and could cause those results to differ materially from those expressed in the forward-looking statements. See “Forward-Looking Information”.

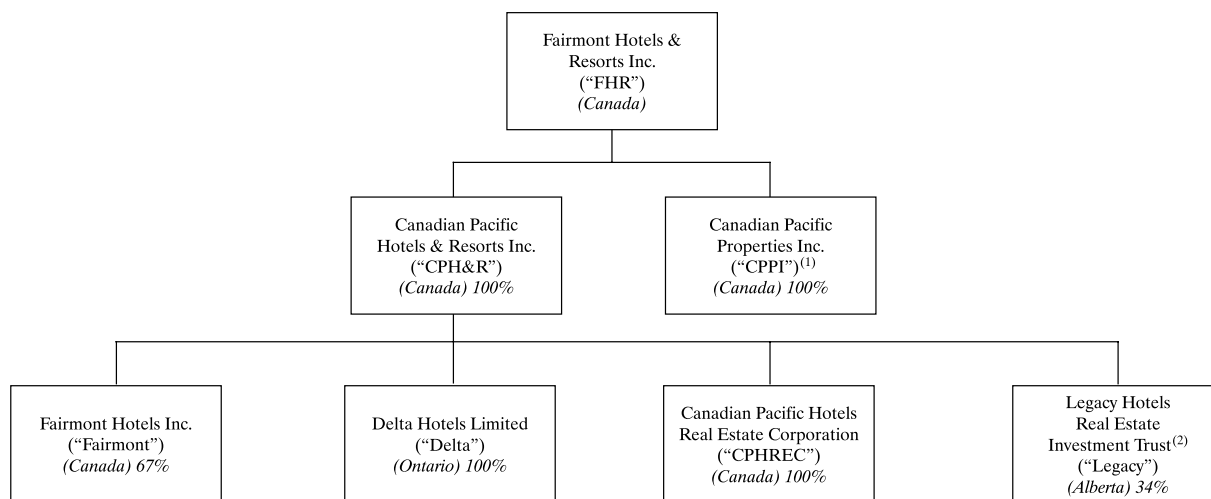
**DESCRIPTION OF FAIRMONT HOTELS & RESORTS INC.**

**General**

Pursuant to the Arrangement, CPL will be renamed Fairmont Hotels & Resorts Inc. FHR will be governed by the *Canada Business Corporations Act*. FHR’s registered office, executive office and principal place of business will be located at Canadian Pacific Tower, 100 Wellington Street West, Suite 1600, TD Centre, P.O. Box 40, Toronto, Ontario, M5K 1B7. See “The Arrangement” in Part I of the Circular.

**Principal Subsidiaries**

The principal ownership structure of FHR immediately following the Arrangement is illustrated below.



(1) CPPI will hold FHR’s interests in the Southtown lands and Coal Harbour lands after the Effective Date of the Arrangement. See “Business of Fairmont Hotels & Resorts Inc. — Direct Ownership”.

(2) Legacy is an unincorporated closed-end real estate investment trust formed under the laws of the Province of Alberta.

## GENERAL DEVELOPMENT OF THE BUSINESS

Prior to the Arrangement, FHR's hotel and resort business was carried on through a wholly-owned subsidiary, Canadian Pacific Hotels & Resorts Inc. ("CPH&R").

In 1997, CPH&R was a Canadian hotel management and ownership business with 25 properties, approximately 11,000 guestrooms and one luxury brand, Canadian Pacific Hotels. The portfolio was primarily a combination of FHR's original Canadian Pacific properties and seven hotels purchased from Canadian National Railway Co. in 1988.

### Significant Acquisitions

In May 1998, FHR purchased Delta for approximately \$62 million. Delta, a first class Canadian hotel management company, had 27 hotels and 10,000 guestrooms under management or franchise and leasehold interests in three properties at the time of its acquisition. This acquisition enabled FHR to strengthen its leadership position in the Canadian marketplace, add a complementary brand to its portfolio and achieve significant economies of scale as a result of a major increase in the number of rooms under management. Subsequent to the acquisition of Delta, the management contracts of six of FHR's smaller hotels were transferred to and rebranded under the Delta name. Rebranding these hotels reinforced Fairmont's reputation within the luxury segment of the market and enhanced Delta's position in the first class segment of the market.

In August 1998, FHR purchased the Princess hotel portfolio, a group of seven warm weather resorts in Mexico, Bermuda, Barbados and the United States for approximately \$542 million. This portfolio was comparable to FHR's existing properties in terms of size, customer base and quality. Management of FHR viewed this as an opportunity to invest capital at attractive rates of return, reposition the assets, market the resorts more aggressively and significantly increase cash flow from operations.

In October 1999, Fairmont Hotels Inc. was created through the combination of FHR's luxury hotel management business with that of Fairmont Hotel Management L.P. ("Fairmont L.P."), a U.S.-based luxury hotel manager. Fairmont immediately became the largest luxury hotel management company in North America as measured by the number of rooms under management. FHR contributed management contracts for 27 luxury properties while Fairmont L.P. contributed management contracts for seven hotels in key United States gateway cities and all rights to the Fairmont brand. FHR owns a 67% controlling interest in Fairmont while the original owners of Fairmont L.P., Prince Alwaleed and a fund represented by Maritz, Wolff & Co., each own 16.5%. This acquisition provided FHR with an international luxury brand under which it operates its world class resorts and its luxury hotel management business.

In November 2000, FHR acquired the remaining 80% of The Fairmont Chateau Whistler for approximately \$94 million. In February 2001, it acquired The Fairmont Kea Lani Maui on the Wailea coast in Maui, Hawaii for approximately \$250 million. See "Owned Hotels and Resorts".

### Significant Dispositions

In November 1997, FHR sold 11 city centre business hotels to Legacy concurrent with Legacy's commencement of operations and initial public offering. FHR acquired an approximate 33% interest in Legacy under this offering. FHR retained the long-term management contracts for these properties which had an average term of 43 years at the time of sale, a majority of which are subject to an unlimited number of 25-year renewal terms. The sale generated approximately \$551 million in proceeds.

In February 2001, FHR sold The Fairmont Empress in Victoria, British Columbia and Fairmont Le Château Frontenac in Quebec City, Quebec to Legacy for approximately \$201 million, while retaining the long-term management contracts, each of which had a remaining term of 49 years at the time of sale. In connection with the purchase of these properties, Legacy was required by applicable Canadian securities legislation to obtain a valuation, which was prepared by the Hospitality, Leisure and Tourism practice of

KPMG LLP and was dated October 31, 2000. The values attributed to The Fairmont Empress and Fairmont Le Château Frontenac in this valuation were Cdn\$124 million and Cdn\$195 million, respectively. As at the date hereof, after giving effect to the Arrangement, the partners of the Hospitality, Leisure and Tourism Practice of KPMG LLP collectively beneficially own, directly or indirectly, less than 1% of the outstanding securities of FHR.

## **BUSINESS OF FAIRMONT HOTELS & RESORTS INC.**

### **Overview**

FHR is one of North America's leading managers of luxury hotels and resorts. FHR currently has 77 luxury and first class hotels and resorts in its portfolio, representing more than 30,000 rooms. An additional four properties are currently under development. The properties are located in Canada, the United States, Mexico, Bermuda and Barbados. FHR has operated and owned hotels and resorts for 115 years and currently manages properties principally under the Fairmont and Delta brand names.

Fairmont caters to the luxury segment of the market, which is sometimes referred to as four or five star. Luxury hotels are full service properties offering an exceptional level of personalized service and a complete range of amenities and facilities, including food and beverage outlets, meeting rooms and recreational activities. Hotel staff to guest ratios tend to be higher at luxury hotels in order to allow for more personalized service. Delta is a first class hotel management company, which segment is referred to as three or four star. First class hotels offer full service amenities and facilities generally similar to those found in luxury hotels.

In addition to its management business, FHR has real estate ownership interests ranging from approximately 20% to 100% in 20 properties. This distinctive collection of hotel and resort properties is located primarily in exclusive resort destinations or key North American gateway cities. FHR also has an approximate 34% equity interest in Legacy, which owns 21 hotels and resorts across Canada, all of which are managed by either Fairmont or Delta. After completion of the Arrangement, FHR will also own two real estate properties in downtown Toronto and Vancouver which are suitable for commercial or residential development.

CPH&R is FHR's principal subsidiary, which holds its interest in Fairmont, Delta, Legacy, and the owned hotel and resort properties. CPH&R's EBITDA of \$195 million in 2000 represented a 17% increase and a 73% increase over 1999 and 1998, respectively. Revenues under management doubled to \$1.6 billion in 2000 from \$0.8 billion in 1998. In 2000, the management business contributed approximately 21% to EBITDA while the balance was generated by the ownership business. FHR intends to increase the amount of its EBITDA generated by hotel and resort management activities, which are less capital intensive and which management believes will provide additional growth and stability in earnings and cash flow.

### **Fairmont**

Fairmont is the largest luxury hotel and resort management company in North America as measured by number of rooms under management. It currently manages more than 18,000 rooms at 37 luxury properties in major city centres and key resort destinations throughout Canada, the United States, Mexico, Bermuda and Barbados. As of October 1999, the Fairmont brand was used at all of FHR's luxury properties outside Canada, and, in November 2000, the brand was extended to include all of its luxury properties in Canada to further develop brand recognition and provide a consistent brand message.

One of Fairmont's strengths is the diversity of its revenue base, which is relatively balanced within each of the individual and group travel, business and leisure travel, and city centre and resort hotel segments. The individual or transient traveller is typically less price sensitive, whereas the group travel business helps fill rooms in off-peak seasons, providing stability in earnings and occupancy. Business travel accounts for approximately 57% of Fairmont's revenues under management and the balance is derived

from leisure travel. Further diversification is provided to Fairmont as approximately 58% of revenues are derived from city centre locations and the balance from resort properties. The resorts attract corporate travellers for offsite retreats and leisure customers who take advantage of the activities and amenities offered by these locations.

Fairmont has certain amenities and expertise in diverse areas that distinguish it in the luxury sector. For example, Fairmont's Entrée Gold product has carved out a niche that competes with other upscale luxury hotels. This "hotel within a hotel", typically one or two floors of a Fairmont property, has its own check-in desk, lounge area, upgraded amenities in each guestroom and offers superior personalized service. This product commands a higher rate and competes with the upper end of the luxury hotel and resort segment from both a service and room rate perspective. Fairmont also has resources dedicated to both golf and spa operations. FHR has operated golf courses since 1911, and its courses, situated in some of North America's finest natural settings, are designed by some of the world's foremost golf course architects. Fairmont has considerable experience in golf course management and maintenance and retail golf operations. FHR is the largest championship golf course and hotel operator in Canada and has recently upgraded three of its Canadian courses. Another two of its Canadian courses and one of the courses in Acapulco will be upgraded shortly. There are currently four full service spas under development at Fairmont hotels and an additional four planned over the next five years.

Fairmont enjoys a considerable competitive advantage in the large group or corporate business segment of the industry over other exclusively luxury four or five star brands, insofar as its hotels generally have more rooms and also have excellent meeting space to accommodate these groups. Fairmont's average number of rooms per hotel is approximately 500, whereas Fairmont's major competitors, including Ritz-Carlton, Four Seasons, Sheraton Luxury Collection and Preferred Hotels and Resorts, generally range from between 200 to 330 rooms per hotel. See "Hotels and Resorts".

Management is of the view that Fairmont's current brand positioning has poised FHR for above average growth in earnings. The Fairmont name dates back to 1907 and is well known in the United States. In 1999 and 2000, FHR leveraged this strong brand recognition by rebranding 30 properties in Canada, the U.S., Mexico, Bermuda and Barbados as Fairmont properties. Although Fairmont has now become the largest North American luxury hotel management company, management believes that Fairmont is still in the early stages of building consumer awareness of the new Fairmont brand. Many of Fairmont's properties are icons and landmarks in their own right and, as the connection between the brand and these assets is solidified, its strength and value should continue to grow. FHR also believes that there continues to be significant growth potential in the United States and internationally. Currently, 15 of the top 25 U.S. markets do not have a Fairmont property.

## **Delta**

Delta is Canada's largest first class hotel management company with more than 12,000 rooms at 40 managed or franchised hotels and resorts primarily located in Canada. Since FHR acquired Delta in 1998, FHR has upgraded its portfolio of properties, enhanced the reputation of the Delta brand and increased the number of rooms under management by 21%. Delta is of strategic importance to FHR as it strengthens its leadership position in the Canadian marketplace, adds a complementary brand to its portfolio and allows FHR to achieve significant economies of scale.

Delta has certain amenities and expertise in diverse areas that distinguish it in the first class sector. For example, Delta's Signature Club combines the exclusive use of a private lounge and upgraded guestrooms and amenities. Signature Club rooms achieve premium rates, enabling Delta to increase revenues. Delta has a strong regional sales network across Canada and is recognized for its brand strength and property distribution within its marketplace. Delta's major brand competitors are Hilton, Radisson and Sheraton.



## **Direct Ownership**

All of FHR's 20 hotel and resort ownership interests are held directly or indirectly by Canadian Pacific Hotels Real Estate Corporation ("CPHREC"), with the exception of a leasehold interest in Delta Vancouver Airport which is held by Delta. See "Owned Hotels & Resorts". Fairmont manages 18 of these hotels as luxury properties and Delta manages the other two as first class properties.

A significant portion of FHR's owned real estate EBITDA is generated by nine resorts in six locations. The world class Fairmont Banff Springs and Fairmont Chateau Lake Louise in the Canadian Rockies are protected by high barriers to entry as they are located in Banff National Park, which is controlled by the Government of Canada. The Fairmont Chateau Whistler is in Whistler, British Columbia, a year-round resort widely recognized as North America's best ski destination. The Whistler hotel market is nearing full development capacity, which will restrict new supply growth. The Fairmont Scottsdale Princess is a Five Diamond resort in the growing Scottsdale, Arizona market. The Fairmont Hamilton Princess and The Fairmont Southampton Princess are located in Bermuda, where FHR enjoys favourable income tax treatment on its earnings. The Fairmont Acapulco Princess and The Fairmont Pierre Marques in Acapulco, Mexico represent an opportunity to create substantial increases in the value of FHR's portfolio through the continuing development of these resorts. Finally, the most recent addition to the portfolio, The Fairmont Kea Lani Maui on Wailea beach, is an all-suite resort and spa in one of Hawaii's most sought after locations.

Upon the Effective Date of the Arrangement, certain assets of CPL will remain with FHR, including the Southtown lands in Toronto and the Coal Harbour lands in Vancouver. These properties provide FHR significant development opportunities in the future.

The Southtown lands are located in the downtown core of Toronto between the financial district and Lake Ontario. Zoning for the site allows for the development of 5.8 million square feet of commercial and residential space. The site is subdivided into nine parcels and is in close proximity to the Air Canada Centre. The site is located south of Union Station and north of the Gardiner Expressway, primarily on either side of York Street. There have been ongoing discussions with several prospective parties who have expressed interest in purchasing sites for future hotel, office and residential developments. The Coal Harbour lands, in downtown Vancouver, stretch over one kilometre along Burrard Inlet west of The Fairmont Waterfront and are in close proximity to Stanley Park. Zoning for this site allows for the development of 4.7 million square feet of residential and commercial space. Of the 4.7 million square feet, some 2 million square feet of residential density and a 250-berth marina have already been sold. On the remaining parcels, which are in various stages of sale negotiations, zoning allows for hotel, residential, commercial and marina development.

## **Legacy**

In November 1997, FHR sold 11 city centre business hotels to Legacy concurrent with Legacy's commencement of operations and initial public offering. Since then, FHR has maintained at least a one-third interest in Legacy in addition to managing all of the properties in Legacy's portfolio. Legacy currently holds a portfolio of 21 luxury and first class hotels and resorts consisting of more than 9,500 rooms. Fairmont manages Legacy's ten luxury properties which constitute approximately 70% of Legacy's revenues, while Delta manages the remaining 11 first class properties. FHR's intention is to maintain an approximate one-third interest in Legacy as a long-term strategic investment.

Legacy and FHR are parties to a strategic alliance agreement which provides Legacy with the right to participate in any new investments made by FHR in resort or business hotels located in Canada. The agreement also provides Legacy with a right of first offer to purchase any properties that FHR proposes to divest. By selling selected assets to Legacy, FHR is provided with capital while retaining long-term management contracts on the divested assets. Legacy in turn can acquire high-quality, well managed assets.

## **Competitive Strengths**

The hotel and resort industry is highly competitive. FHR believes that it has several distinguishing competitive strengths, including the following.

### *Irreplaceable Collection of Distinctive Assets*

FHR manages and owns a portfolio of unique, high quality hotels and resorts in exceptional locations that provide it with an unrivalled presence throughout North America. FHR's managed assets principally consist of historic landmark properties in prime locations in major city centres or resort destinations. Its properties are typically renowned assets with long-standing traditions and reputations, such as The Plaza in New York City, The Fairmont San Francisco, The Fairmont Royal York in Toronto and Fairmont Le Château Frontenac in Quebec City. FHR's portfolio of owned assets are located primarily in exclusive resort locations where their competitive position is strengthened by high barriers to entry, such as The Fairmont Kea Lani Maui in Hawaii; and The Fairmont Banff Springs, The Fairmont Chateau Lake Louise and The Fairmont Jasper Park Lodge, which are all situated on and surrounded by National Park land owned and controlled by the Government of Canada.

### *Growing Fairmont Brand Position*

Fairmont enjoys a prominent position in the luxury market segment by virtue of its distinctive collection of 37 properties and a reputation for excellence in people, product and service. The Fairmont name dates back to 1907 and is well known in the United States. In 1999 and 2000, FHR leveraged this strong brand recognition by rebranding 30 properties in Canada, the U.S., Mexico, Bermuda and Barbados as Fairmont properties. Although Fairmont has now become the largest North American luxury hotel management company, management believes that Fairmont is still in the early stages of building consumer awareness of the new Fairmont brand. Many of Fairmont's properties are icons and landmarks in their own right and, as the connection between the brand and these assets is solidified, its strength and value should continue to grow. FHR also believes that there continues to be significant growth potential in the United States and internationally. Currently, 15 of the top 25 U.S. markets do not have a Fairmont property.

### *Strategic Relationships*

Strategic relationships are an important source of financing and future growth opportunities for FHR's hotel management and ownership businesses. FHR's strategic alliance agreement with and approximate 34% interest in Legacy provides FHR with a potential buyer for FHR's stabilized real estate assets while enabling it to retain long-term management contracts for these properties. In the event of a sale of an owned asset to Legacy, FHR has the ability to participate, through its ownership interest in Legacy and through base and incentive management fees, in approximately 38% to 48% of the future increases in operating profits of the property, in addition to receiving a significant portion of its proceeds from the sale on a tax-free basis. This allows FHR to generate significant capital which can be reinvested to fund future growth and expand the Fairmont brand presence. Since the establishment of the strategic alliance, Legacy has purchased six properties from FHR for an aggregate consideration of approximately \$252 million. In addition, FHR has established strong partnerships with institutional and private equity sources, including Kingdom Hotels (USA) Ltd., controlled by Prince Alwaleed, and Maritz, Wolff & Co., one of the premier luxury hotel investment firms in the United States. These partners are a potential source of capital to develop luxury and first class hotel and resort properties and can also facilitate FHR's entry into new markets.

In early 2001, Fairmont became a founding member of Avendra, LLC, a North American purchasing consortium that combines the purchasing powers of its founders, Fairmont, Hyatt, ClubCorp, Six Continents and Marriott, to bring each member and their hotels anticipated savings in the cost of goods. All founding members in Avendra, LLC are guaranteed the same purchasing benefits.

### *Long-Term, Incentive-Based Management Contracts*

Fairmont and Delta both earn management fees for services they provide to properties owned by FHR, Legacy and third parties. Base fees are typically calculated as a percentage of a property's gross revenues and provide cash flow stability. Incentive fees are earned as a result of improvements in financial performance, usually above a pre-determined level, and provide significant opportunities for cash flow growth. Generally, the longer the term of the management contract, the greater the opportunity for increased incentive fees.

Fairmont's incentive-based management contracts have an average term of more than 40 years, which management believes are among the longest in the industry. In 2001, Fairmont expects that less than one-third of its management contracts will earn incentive fees. Within the next two to three years, Fairmont expects substantially all of its current contracts to be earning incentive fees. Almost all of these contracts have set thresholds that do not change over the life of the contract except, in certain cases, for adjustments corresponding to significant capital expenditures. Fairmont participates in up to 30% of earnings above the threshold. Delta's incentive-based management contracts have an average term of more than ten years. In 2001, approximately half of Delta's managed hotels are expected to earn incentive fees.

### *Focused Acquisition Strategy*

FHR has developed a five-step process for acquiring and repositioning underperforming real estate assets which has allowed it to maximize the revenues it receives from its owned properties, while following its strategy of increasing the management segment of its business. This five-step process consists of: acquiring an asset and managing it in the short term to increase its revenues; rebranding the asset as either a Fairmont or a Delta property; repositioning and enhancing the revenue potential of the asset through capital investment; aggressively managing the asset to optimize cash flows and operating margins; and monetizing the appreciated value of the stabilized asset by selling it to Legacy or a third party, which enables FHR to use the proceeds to make further acquisitions. FHR's intention is to retain long-term management contracts on the assets it sells.

### *Proven Management Team*

FHR has a 115-year record of providing outstanding service in the lodging sector. FHR's senior management team has, since 1997, successfully completed the initial public offering of Legacy, the acquisitions of Delta and the Princess hotel portfolio and the creation of Fairmont. Also during this period, FHR has reported strong operating and financial performance, as rooms under management and revenues under management have tripled. The management team is supported by 15 corporate vice presidents and by 12 regional vice presidents, and oversees a workforce of over 28,000 employees.

### *Conservative Capital Structure*

Immediately following the Arrangement, FHR believes it will have a conservative capital structure. FHR's expected total outstanding net debt of approximately \$134 million results in a net debt to total capitalization of approximately 9%, one of the lowest among major publicly-traded North American lodging companies. This capital structure provides FHR with a financial advantage relative to its competitors, enabling FHR to use its balance sheet to aggressively grow its business both through the refurbishment and expansion of existing properties and through selective acquisitions.

### **Growth Strategy**

In addition to benefiting from the overall growth trends of the luxury segment of the market, FHR intends to grow revenue and profits through a comprehensive growth strategy.

### *Maximize Operating Performance of Existing Assets*

FHR continues to grow revenues and earnings by maximizing the operating performance of its managed and owned hotels through profit enhancing capital improvements and more focused marketing programs and sales efforts. FHR also anticipates that the Fairmont brand will continue to enhance revenue opportunities through a consistent brand image and increased North American and international recognition of the properties in the portfolio.

FHR also expects that the rebranding of newly acquired assets will leverage the operating performance of its existing properties. Not only will the rebranding enhance the revenue opportunities of the new assets through their immediate association with the Fairmont brand, but, in addition, it will raise the profile of the rest of the Fairmont properties by raising the profile of the Fairmont brand as a whole.

### *Invest Capital to Expand, Reposition and Refurbish Existing Assets*

A number of FHR's owned and managed assets have recently undergone or are currently undergoing major renovation programs which has affected operating revenues. This extensive renovation program has deferred the realization of incentive fees from the respective properties. Once these renovations are completed, FHR expects that it will earn significant returns on the capital invested. One example of this strategy was the expansion of The Fairmont Chateau Whistler. With the growing recognition of Whistler as a world class destination resort in the early 1990s, FHR determined that increasing demand warranted an addition of guestrooms and meeting space. In September 1997, the hotel opened 216 new guestrooms. In 2000, operating and financial results supported the expansion as EBITDA had more than doubled since 1996 and RevPAR had risen significantly.

### *Broaden Revenue Streams*

Incremental investments in spas, golf courses, residential and retail enhance the Fairmont brand and are also attractive investment opportunities, as the hotel infrastructure and land are already in place. There are currently four new spas under development and an additional four spas planned in the next five years. In addition, FHR operates ten golf courses and has developed expertise in this area. FHR is focusing its acquisition strategy to target hotels and resorts that already have spas and golf courses in place or have the space to accommodate these facilities. FHR also continues to evaluate opportunities to develop residential accommodations at certain of its resort properties. Several of FHR's existing properties, such as The Fairmont Royal Pavilion and The Fairmont Scottsdale Princess could accommodate residential development. Fairmont currently has a large portfolio of retail shops within its hotels, providing rental income for FHR. The Fairmont Scottsdale Princess currently operates its own retail shops and The Fairmont Banff Springs has recently undertaken renovations to upgrade its retail outlets and convert leased tenancies into hotel-operated shops. Fairmont will continue to pursue opportunities for future growth in retail revenue, through both leased tenancies and owned and operated stores.

### *Growth Through New Incentive-Based Management Contracts*

FHR intends to further develop and leverage the Fairmont brand by seeking new single and multiple incentive-based management contract opportunities. FHR believes it has substantial growth potential in the United States as 15 of the top 25 markets currently do not have a Fairmont property. FHR also intends to capitalize on opportunities outside North America.

Fairmont is well positioned to attract hotel owners and new partners through its management expertise, unique portfolio of properties and service culture. In addition, it has established scalable technology infrastructure that supports management information systems which are critical to the globalization of the brand.

Delta has proven its ability to secure new management contracts within Canada, with 14 new management contracts being entered into in the past two years. It is anticipated that the Delta brand may also be extended beyond Canada to certain U.S. border states where it has significant brand recognition.

#### *Growth Through Acquisitions*

To support and complement the growth of its management business, FHR intends to use its strong balance sheet and effective management capabilities to make selective acquisitions in key North American gateway cities and exclusive resort destinations. FHR intends to focus on assets that are consistent in size, quality and customer base with FHR's existing portfolio, or that are in protected markets or have significant development potential. The 1998 acquisition of the Princess hotel portfolio highlights FHR's ability to successfully target, acquire, reposition and significantly improve the financial performance of large complex properties. In 2000, EBITDA before management fees from the Princess hotel portfolio was up 32% over 1999. In addition, a significant investment program is underway at most of the Princess properties, which is expected to yield sustainable improvements in operating performance and attractive returns in the future.

Once an acquired asset has been stabilized, FHR will consider selling all or a portion of the asset to Legacy or a third party. As part of the sale agreement, FHR would retain a long-term management contract. The cash generated from the sale of stabilized properties would then be redeployed into new investment opportunities. This strategy was utilized with the sale of The Fairmont Empress and Fairmont Le Château Frontenac where the proceeds were used for the subsequent purchase of The Fairmont Kea Lani Maui, thereby expanding FHR's presence in a key resort market.

FHR also plans to leverage its strong financial position by increasing the use of minority equity investments as opposed to outright acquisitions. This will enable FHR to secure long-term management contracts with only a modest capital investment. The Delta Sun Peaks Resort arrangement is an example of a minority equity investment by FHR. FHR acquired an approximate 29% interest in the equity of the project and secured a long-term management contract for Delta. This Delta resort facility is currently being developed in Sun Peaks, British Columbia and is expected to open in early 2002.

Although FHR is focused on expanding primarily in the United States, FHR will also consider single strategic acquisitions outside of North America. For example, FHR recently announced a joint venture which involves a minority equity investment and a long-term management contract for The Fairmont Dubai. This 393-room luxury business hotel located in Dubai, United Arab Emirates, consists of four interlocking towers with 117 suites, state-of-the-art business facilities, residential apartments, office space, a world class spa and a health club. The Fairmont Dubai will be opposite Dubai's World Trade Centre and the area earmarked for a new convention centre, the site of the International Monetary Fund's meeting in 2003. FHR views this project as the first step in a strategic alliance between the private office of Dr. Sheikh Sultan and Fairmont to build and operate a number of luxury hotels in the region and other international markets.

## Hotels and Resorts

The following tables provide certain information relating to each property managed by Fairmont and Delta as of June 30, 2001.

FAIRMONT HOTELS & RESORTS Property	Year Opened	Ownership <sup>(4)</sup>	Total Rooms	Total Suites	Entrée Gold Rooms	Meeting Rooms/ Sq. Footage
The Fairmont Kea Lani Maui <i>Wailea, Maui, Hawaii</i> . . . . .	1991	CPHREC	450	450	—	8/11,400
The Fairmont San Francisco <i>San Francisco, California</i> . . . . .	1907		591	62	—	20/55,000
The Fairmont San Jose <i>San Jose, California</i> . . . . .	1987		541	41	—	15/45,000
The Fairmont Miramar Hotel, Santa Monica <i>Santa Monica, California</i> . . . . .	1921		302	61	—	15/23,000
The Fairmont Scottsdale Princess <i>Scottsdale, Arizona</i> . . . . .	1987	CPHREC	650	70	—	29/78,000
The Fairmont Dallas <i>Dallas, Texas</i> . . . . .	1969		550	49	—	24/77,000
The Fairmont Kansas City At The Plaza <i>Kansas City, Missouri</i> . . . . .	1972		366	20	52	22/29,000
The Fairmont New Orleans <i>New Orleans, Louisiana</i> . . . . .	1893		700	85	—	20/54,000
The Fairmont Chicago <i>Chicago, Illinois</i> . . . . .	1987		692	66	—	14/45,900
The Plaza New York, <i>New York</i> <sup>(1)</sup> . . . . .	1907		805	118	—	18/27,500
The Fairmont Copley Plaza Boston <i>Boston, Massachusetts</i> . . . . .	1912	CPHREC 50% <sup>(2)</sup>	379	54	—	9/20,000
The Fairmont Empress <i>Victoria, British Columbia</i> . . . . .	1908	Legacy	476	65	36	6/10,000
The Fairmont Chateau Whistler <i>Whistler, British Columbia</i> . . . . .	1989	CPHREC	556	60	53	12/28,000
The Fairmont Hotel Vancouver <i>Vancouver, British Columbia</i> . . . . .	1939	Legacy	556	38	36	15/38,000
The Fairmont Waterfront <i>Vancouver, British Columbia</i> . . . . .	1991	Legacy	489	29	47	14/24,000
The Fairmont Vancouver Airport <i>Richmond, British Columbia</i> . . . . .	1999	CPHREC	392	2	36	14/7,000
The Fairmont Jasper Park Lodge <i>Jasper, Alberta</i> . . . . .	1922	CPHREC	446	58	—	17/26,000
The Fairmont Chateau Lake Louise <i>Lake Louise, Alberta</i> . . . . .	1890	CPHREC	487	41	—	12/15,000
The Fairmont Banff Springs <i>Banff, Alberta</i> . . . . .	1888	CPHREC	770	95	—	24/76,000
The Fairmont Palliser <i>Calgary, Alberta</i> . . . . .	1914	Legacy	405	17	44	14/21,500
The Fairmont Hotel Macdonald <i>Edmonton, Alberta</i> . . . . .	1915	Legacy	198	18	—	7/10,600
The Fairmont Winnipeg <i>Winnipeg, Manitoba</i> . . . . .	1970	Legacy	340	20	36	13/20,000
The Fairmont Royal York <i>Toronto, Ontario</i> . . . . .	1929	Legacy	1,365	71	85	43/65,000
Fairmont Château Laurier <i>Ottawa, Ontario</i> . . . . .	1912	Legacy	429	45	35	16/33,000
Fairmont Le Château Montebello and Kenauk <i>Montebello, Quebec</i> . . . . .	1930	CPHREC	211	14	—	17/11,000
Fairmont The Queen Elizabeth <i>Montreal, Quebec</i> . . . . .	1958	Legacy	1,050	100	79	29/47,200
Fairmont Tremblant <i>Mont Tremblant, Quebec</i> . . . . .	1997	CPHREC 19.9%	316	62	—	19/16,100
Fairmont Le Château Frontenac <i>Quebec City, Quebec</i> . . . . .	1893	Legacy	618	37	55	14/21,500
Fairmont Le Manoir Richelieu <i>Charlevoix, Quebec</i> . . . . .	1899	CPHREC 25%	405	26	21	14/22,000
The Fairmont Algonquin <i>St. Andrews By-the-Sea, New Brunswick</i> . . . . .	1889		250	16	—	7/14,700
The Fairmont Newfoundland <i>St. John's, Newfoundland</i> . . . . .	1982	CPHREC 20%	301	13	64	18/16,000
The Fairmont Acapulco Princess <i>Acapulco, Mexico</i> . . . . .	1971	CPHREC	1,017	131	—	16/38,200
The Fairmont Pierre Marques <i>Acapulco, Mexico</i> . . . . .	1958	CPHREC	343	79	—	2/6,200
The Fairmont Southampton Princess <i>Southampton, Bermuda</i> . . . . .	1972	CPHREC	593	24	78	16/32,000
The Fairmont Hamilton Princess <i>Hamilton, Bermuda</i> . . . . .	1884	CPHREC	410	57	95	5/15,500
The Fairmont Royal Pavilion <i>St. James, Barbados</i> . . . . .	1987	CPHREC	75	2	—	2/1,200
The Fairmont Glitter Bay <i>St. James, Barbados</i> . . . . .	1981	CPHREC <sup>(5)</sup>	67	43	—	1/2,500
The Fairmont Dubai <i>Dubai, United Arab Emirates</i> <sup>(3)</sup> . . . . .	2002 (est.)	CPHREC <sup>(6)</sup>	TBA	TBA	TBA	TBA/TBA
Puerto Rico resort <i>Rio Grande, Puerto Rico</i> <sup>(3)</sup> . . . . .	2003 (est.)	CPHREC 24%	TBA	TBA	TBA	TBA/TBA
<b>TOTAL</b> . . . . .			18,591	2,239	852	561/1,084,000

(1) A Fairmont managed hotel.

(2) Acquisition completed in June, 2001.

(3) Under development.

(4) Ownership interest is held by a third party unless otherwise indicated.

(5) Some of the units at this resort are privately owned.

(6) Ownership percentage estimated to be approximately 27%.

<b>DELTA HOTELS Property</b>	<b>Year Opened</b>	<b>Ownership<sup>(4)</sup></b>	<b>Rooms</b>	<b>Total Suites</b>	<b>Signature Club Rooms</b>	<b>Meeting Rooms/ Sq. Footage</b>
Delta Pacific Resort & Conference Centre <i>Richmond, British Columbia</i> . . . . .	1963		438	5	60	24/28,000
Delta Vancouver Airport <i>Richmond, British Columbia</i> . . . . .	1973	Delta	415	4	—	16/15,400
Delta Vancouver Suites <i>Vancouver, British Columbia</i> . . . . .	1998	CPHREC 34.8%	226	226	23	5/2,700
Delta Pinnacle <i>Vancouver, British Columbia</i> . . . . .	2000		434	10	51	12/15,700
Delta Whistler Resort <i>Whistler, British Columbia<sup>(1)</sup></i> . . . . .	1982		292	24	—	8/4,000
Delta Whistler Village Suites <i>Whistler, British Columbia</i> . . . . .	1997		207	184	—	3/4,000
Tantalus Lodge <i>Whistler, British Columbia<sup>(2)</sup></i> . . . . .	1980		76	76	—	1/1,100
Delta Bow Valley <i>Calgary, Alberta</i> . . . . .	1981		398	3	—	10/10,000
Delta Calgary Airport <i>Calgary, Alberta</i> . . . . .	1979	Legacy	296	12	—	15/19,500
Delta Lodge at Kananaskis <i>Kananaskis Village, Alberta</i> . . . . .	1988		321	68	67	15/16,000
Delta Edmonton Centre Suite Hotel <i>Edmonton, Alberta</i> . . . . .	1987		169	102	—	11/12,000
Delta Edmonton South Hotel & Conference Centre <i>Edmonton, Alberta<sup>(1)</sup></i> . . . . .	1975		237	8	—	24/31,900
Delta Bessborough <i>Saskatoon, Saskatchewan</i> . . . . .	1935	Legacy	225	19	—	13/20,000
Delta Regina <i>Regina, Saskatchewan<sup>(1)</sup></i> . . . . .	1988		255	7	—	23/28,700
Delta Winnipeg <i>Winnipeg, Manitoba</i> . . . . .	1974	Legacy	390	7	51	13/18,100
Delta London Armouries <i>London, Ontario<sup>(1)</sup></i> . . . . .	1987		250	14	—	15/9,500
Delta Meadowvale Resort and Conference Centre <i>Mississauga, Ontario<sup>(1)</sup></i> . . . . .	1981		374	2	—	40/30,200
Four Points Hotel Toronto Airport <i>Mississauga, Ontario<sup>(2)</sup></i> . . . . .	1978	Legacy	296	6	—	21/12,400
Delta Toronto Airport <i>Toronto, Ontario</i> . . . . .	1970		247	2	—	15/9,500
Delta Chelsea <i>Toronto, Ontario</i> . . . . .	1975		1,590	33	73	18/21,500
Delta Toronto East <i>Toronto, Ontario</i> . . . . .	1982	Legacy	368	7	20	27/22,000
Pinestone Resort <i>Haliburton, Ontario<sup>(2)</sup></i> . . . . .	1976		103	24	—	14/15,000
Delta Sherwood Inn <i>Muskoka, Ontario</i> . . . . .	1939		49	6	—	3/3,500
Delta Grandview Resort <i>Huntsville, Ontario</i> . . . . .	1911		135	84	—	11/8,800
Delta Rocky Crest Resort <i>Muskoka, Ontario</i> . . . . .	1965		65	65	—	3/3,000
Delta Lake Joseph Resort <i>Muskoka, Ontario</i> . . . . .	1997		25	25	—	3/3,300
Delta Ottawa Hotel and Suites <i>Ottawa, Ontario</i> . . . . .	1976	Legacy	328	55	23	15/12,000
Delta Montreal <i>Montreal, Quebec<sup>(1)</sup></i> . . . . .	1986		453	2	42	15/16,000
Delta Centre-Ville <i>Montreal, Quebec</i> . . . . .	1977	Legacy	711	24	128	25/22,600
Delta Sherbrooke Hotel and Conference Centre <i>Sherbrooke, Quebec</i> . . . . .	1989		178	11	—	17/18,900
Delta Trois-Rivières Hotel and Conference Centre <i>Trois Rivières, Quebec</i> . . . . .	1991		159	3	—	13/18,300
Delta Brunswick <i>Saint John, New Brunswick<sup>(1)</sup></i> . . . . .	1981		255	9	—	14/12,800
Delta Beauséjour <i>Moncton, New Brunswick</i> . . . . .	1972	Legacy	310	9	—	14/24,000
Delta Halifax <i>Halifax, Nova Scotia</i> . . . . .	1974	Legacy	296	2	—	12/9,000
Delta Barrington <i>Halifax, Nova Scotia</i> . . . . .	1980	Legacy	200	1	31	7/6,700
Delta Sydney <i>Sydney, Nova Scotia<sup>(1)</sup></i> . . . . .	1987		152	16	—	9/5,500
Delta Prince Edward <i>Charlottetown, P.E.I.</i> . . . . .	1984	Legacy	211	—	—	13/25,000
Delta St. John's Hotel and Conference Centre <i>St. John's, Newfoundland</i> . . . . .	1987		276	6	30	16/18,000
Delta Orlando Resort <i>Orlando, Florida<sup>(1)</sup></i> . . . . .	1972		662	56	—	15/20,000
Delta Victoria Ocean Pointe Resort & Spa, <i>Victoria, British Columbia</i> . . . . .	1992		250	6	—	10/6,000
Delta Sun Peaks Resort <i>Sun Peaks, British Columbia<sup>(3)</sup></i> . . . . .	2002	CPHREC 29%	TBA	TBA	TBA	TBA/TBA
Delta Glen Abbey Resort & Conference Centre <i>Oakville, Ontario<sup>(3)</sup></i> . . . . .	2003	CPHREC	TBA	TBA	TBA	TBA/TBA
<b>TOTAL</b> . . . . .			12,322	1,223	599	558/580,600

(1) A Delta franchised hotel.

(2) A Delta managed hotel, non branded.

(3) Under development.

(4) Ownership interest is held by a third party unless otherwise indicated.

## Industry Awards

Fairmont and Delta have each developed reputations for quality, service and innovation in the luxury and first class markets, respectively. Their reputations have been acknowledged by the following leading surveys.

2001

Fairmont gained international recognition from *Condé Nast Traveler's* Readers' Choice Poll with 19 of its hotels and resorts appearing in the magazine's coveted Gold List. Fairmont Le Château Frontenac, highlighted in the list, scored a remarkable 95.9% ranking for its surrounding location and local atmosphere, and was placed second in The Americas in this category. In addition, three of Fairmont's hotels were ranked in the magazine's Readers Pick 50 Best Golf Resorts.

*Travel & Leisure* magazine recognized The Fairmont Southampton Princess as the best hotel in the Caribbean/Bermuda/Bahamas.

2000

The *Mobil Travel Guide* awarded seven of Fairmont's properties and one of its restaurants its Four Star Award.

The *American Automobile Association* ("AAA") and the *Canadian Automobile Association* ("CAA") recognized 29 of FHR's properties with Four or Five Diamond Awards.

The *Corporate & Incentive Traveler* magazine gave three Fairmont hotels its Award of Excellence.

*Meeting & Conventions* magazine presented ten of Fairmont's hotels with its Gold Key Award.

*Successful Meetings* magazine awarded 14 Fairmont properties and one Delta property the Pinnacle Award.

Delta's long-standing commitment to quality was recognized when it became the first hotel company to receive an award from the National Quality Institute's prestigious Canada Awards for Excellence.

## Owned Hotels and Resorts

The following is a description of the individual hotels and resorts in which FHR currently has an ownership interest. CPHREC or one or more of its subsidiaries has a 100% interest in these properties, unless otherwise indicated.

### *The Fairmont Kea Lani Maui*

Known as the island's only all-suite luxury oceanfront resort, The Fairmont Kea Lani Maui is situated on Polo Beach in the world class, master-planned destination of Wailea, on the southwestern coast of Maui. With 413 one-bedroom suites and 37 private beachfront villas, the 22-acre resort offers a full service spa and fitness centre and a range of water sports. The resort is located close to Wailea's three 18-hole championship, par 72 golf courses and 14 tennis courts. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List in addition to being ranked one of the 50 Best Golf Resorts by the magazine. In 2000, The Fairmont Kea Lani Maui received the Gold Key Award from *Meetings & Conventions* magazine and the Pinnacle Award from *Successful Meetings* magazine. CPHREC holds its interest in the resort through an indirect Hawaiian limited partnership, Kea Lani Limited Partnership.

### *The Fairmont Scottsdale Princess*

Built in 1987, The Fairmont Scottsdale Princess is located on a 450-acre property, with the McDowell Mountains as the backdrop. In 2000, the resort received an AAA Five Diamond rating as did the resort's



Le Marquesa restaurant, one of only two Five Diamond restaurants in Arizona. Also in the restaurant category, La Hacienda is the only Mexican-style restaurant in North America to garner both the Mobil Four Star and AAA Four Diamond Awards. The property has access to two championship golf courses which are leased by the City of Scottsdale to and operated by the Tournament Players Club of Scottsdale. For several years, one of these courses has been the site of the PGA Tour's Phoenix Open. The resort has also been the host of the ATP/Franklin Templeton Men's Tennis Tournament for a number of years. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List. In 2000, the resort was voted one of the 50 Best Golf Resorts in *Condé Nast Traveler* and received the Silver Medal Resort by *Golf* magazine. The current spa and fitness facilities are being completely renovated and upgraded to include a 50,000 square-foot luxury spa which is expected to open at the end of 2001. The Fairmont Scottsdale Princess is owned by the Scottsdale Princess Partnership, an Arizona partnership, which is indirectly owned by CPHREC. The hotel is located on land leased from the City of Scottsdale, which lease expires at the end of 2085.

#### *The Fairmont Copley Plaza Boston*

Known as the "Grande Dame" of Boston, The Fairmont Copley Plaza Boston has been a landmark of elegance since its opening in 1912. The 379-room hotel was designed by the same architect as The Plaza New York and has many features in common with that hotel. The Fairmont Copley Plaza Boston is centrally located beside the Hancock Tower, the Boston Public Library and Trinity Church and is close to Beacon Hill and Newbury Street. The hotel received the AAA Four Diamond Award in 2000. In June 2001, CPHREC acquired a 50% ownership position in the hotel, and Fairmont, which has been the manager of the hotel since 1996, entered into a new long-term management contract. The hotel will be undergoing substantial renovations to its guestrooms and common areas during the next year or so. CPHREC holds its interest in the owner of the hotel, Copley Plaza 2001 LLC, a limited Delaware partnership, through an indirect wholly-owned subsidiary.

#### *The Fairmont Chateau Whistler*

Opened in 1989, The Fairmont Chateau Whistler was the first chateau-style resort built by FHR since the turn of the century. Tourism in the Whistler area has generally been increasing and the resort has been expanded over the past decade to accommodate increased demand. Located at the base of Blackcomb Mountain, the chateau is within walking distance of Whistler Mountain and now offers a full service spa. The resort features an 18-hole championship golf course designed by Robert Trent Jones, Jr. which is on leased land. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List and was voted one of the 50 Best Golf Resorts by the magazine. In 2000, The Fairmont Chateau Whistler was recognized as one of the top ski hotels in North America by *Ski* magazine and was ranked the No. 2 resort hotel in North America by *Condé Nast Traveler*. The hotel also received the Four Diamond Award from the CAA in 2000. The property is owned by Chateau Whistler Resort Partnership, a British Columbia partnership which is wholly-owned, directly and indirectly, by CPHREC.

#### *The Fairmont Vancouver Airport*

Built in 1999, The Fairmont Vancouver Airport is a state-of-the-art hotel connected to the Vancouver International Airport. It is the first hotel in the world to offer an in-room airline check-in service and the first hotel in North America to introduce a satellite lobby in the airport arrival halls. With a full service work centre, spa and health club, this hotel combines all the expected amenities and facilities of a luxury hotel with the conveniences of an airport property. In 2000, the hotel earned the Four Diamond Award from CAA. CPHREC leases the land on which the hotel is located from the Vancouver Airport Authority. The lease term expires in 2050.

### *The Fairmont Jasper Park Lodge*

The Fairmont Jasper Park Lodge is an alpine-like village of cedar chalets and authentic log cabins originally designed in 1922. Located near Marmot Basin Ski Resort in Jasper National Park, the property offers year-round activities including skiing and golf on its championship golf course designed by Stanley Thompson. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List in addition to being ranked as one of the 50 Best Golf Resorts by the magazine. In 2000, this golf course received numerous honours including 4½ Stars from *Golf Digest* for overall golf experience, Best Golf Resort in Canada by *Score Golf* magazine and Best Golf Resort in Alberta by *Score* magazine. Also in 2000, CAA presented both the resort and its main restaurant, the Edith Cavell Dining Room, with Four Diamond Awards. The resort is under a single lease with the Government of Canada, expiring March 31, 2010, with a right to an additional term of ten years.

### *The Fairmont Chateau Lake Louise*

The Fairmont Chateau Lake Louise was expanded from a mountain chalet in 1912 and is on the shores of Lake Louise in the Canadian Rockies. The resort is in close proximity to world class skiing at the Lake Louise Ski Area in Alberta. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List. The Fairmont Chateau Lake Louise was selected as one of the “Ultimate 10 Hotels in the World” by The Learning Channel, recognizing the property as one of the top luxury resorts in the world. The hotel also received the Four Diamond Award from the CAA in 2000. The resort is under perpetually renewable leases with the Government of Canada, the owner of all the land in Banff National Park, with the exception of a new lease of a road right-of-way and other lands including minor portions of the hotel and a staff building which is for a fixed term of 42 years. Following the Effective Date of the Arrangement, the leases for The Fairmont Chateau Lake Louise will be held by a wholly-owned subsidiary of FHR.

### *The Fairmont Banff Springs*

Designed and built in 1888, and often referred to as the “Castle in the Rockies”, The Fairmont Banff Springs is a year-round resort located in the Canadian Rocky Mountains in Banff National Park. The hotel is in close proximity to a number of internationally renowned ski facilities, including Sunshine Village and Lake Louise Ski Area, and has a 27-hole championship golf course designed by Stanley Thompson. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List. In 1995, the hotel opened Solace, a luxury spa that was ranked second in the category of “World's Best Spa Destinations” by *Condé Nast Traveler's* 2000 Readers' Choice Awards. The hotel also received the Four Diamond Award from the CAA in 2000. In late 2001, a major three-year renovation program will be completed at the property, returning the hotel to its original splendour. The main structures of the resort containing the reception areas, kitchen, guestrooms and the majority of the staff accommodations are subject to perpetually renewable leases with the Government of Canada. The remaining leasehold lands forming the resort and containing the conference centre, parkade, other staff accommodations, the tennis courts and the golf course are subject to a number of leases for fixed terms of up to 42 years.

### *Fairmont Le Château Montebello and Fairmont Kenauk at Le Château Montebello*

Located between Ottawa and Montreal, this historic resort's focal point is its red cedar log chateau built in 1930. Fairmont Le Château Montebello has approximately 65,000 acres of protected wilderness domain that is one of North America's largest and oldest private fish and game reserves, with more than 70 lakes within its borders. The resort has an extensive recreation program and offers a Stanley Thompson championship golf course, for which it received a Double Platinum ranking from Canada's *Golf Ranking* magazine. The hotel also received the CAA Four Diamond Award in 2000.

### *Fairmont Tremblant*

Opened in 1997, this resort is located at the base of Mont Tremblant in the Laurentians. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List. In 2000, Fairmont Tremblant received the Four Diamond Award from CAA and was rated one of the best ski lodges in North America by *Ski* magazine. CPHREC has a 19.9% direct interest in Chateau M.T. Inc., a Quebec corporation, which owns the property.

### *Fairmont Le Manoir Richelieu*

First established in 1899, this "Castle on the Cliff" located in Charlevoix, Quebec, recently celebrated its centennial shortly after the completion of a \$92 million major renovation. In 2000, Fairmont Le Manoir Richelieu received a Double Platinum ranking from Canada's *Golf Ranking* magazine for its 18-hole championship golf course. In addition, the resort received the Four Diamond Award from CAA in 2000. The resort offers a spa, casino and whale watching on the St. Lawrence River. CPHREC holds a 25% interest in the property through its direct ownership in Manoir Richelieu Limited Partnership, a Quebec limited partnership.

### *The Fairmont Newfoundland*

Rebuilt in 1982, The Fairmont Newfoundland is located in the heart of St. John's, overlooking the harbour. This modern hotel offers a 24-hour business centre and all guestrooms are provided with business amenities. CPHREC holds its 20% interest directly in this property.

### *The Fairmont Acapulco Princess*

Designed to resemble an Aztec pyramid, The Fairmont Acapulco Princess is located on, and shares with The Fairmont Pierre Marques, 480 tropical acres along the Revolcadero Beach. Each of the more than 1,000 guestrooms has recently been refurbished and the grounds offer five freshwater pools, waterfalls and a salt-water pool. The resort offers tennis, water sports and an 18-hole championship golf course. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List. In 2000, The Fairmont Acapulco Princess received the Gold Key Award from *Meetings & Incentives* magazine and the AAA Four Diamond Award. The resort is currently adding a luxury spa that will open in March of 2002. The hotel and golf course are owned by Organización Ideal, S.A. de C.V. and Impulsora de Revolcadero S.A. de C.V., both Mexican corporations, which are indirect wholly-owned subsidiaries of CPHREC.

### *The Fairmont Pierre Marques*

Located minutes from The Fairmont Acapulco Princess on a secluded section of Revolcadero Beach, the resort was originally built in 1958 as a lavish personal hideaway for oil magnate J. Paul Getty. Previously open for only three months of the year, the resort has been catering to guests year-round since it was purchased by FHR. The resort has retained the privacy and intimacy of its original days with villas, bungalows and low-rise pavilions in a garden setting. The property offers three freshwater pools and an 18-hole championship golf course. By the end of 2002, FHR will have completed an extensive renovation of all of its 344 guestrooms. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List. The hotel received the Four Diamond Award from the AAA in 2000. The hotel and golf course are owned by Impulsora de Revolcadero, S.A. de C.V., a Mexican corporation which is an indirect wholly-owned subsidiary of CPHREC. A small section of the land is held in trust from Banca Cremi, S.A. by Organización Ideal, S.A. de C.V., a Mexican corporation which is an indirect wholly-owned subsidiary of CPHREC.

### *The Fairmont Southampton Princess*

Located on the south shore of Bermuda's highest point, The Fairmont Southampton Princess opened in 1972 overlooking approximately 100 acres of property. The resort has a pink sand beach, tennis and an 18-hole par 3 executive golf course. The resort is currently undergoing a four-year, \$48 million renovation to be completed in 2003. Entrée Gold is now available and a full service spa will open in early 2002. In 2001, the resort appeared in *Condé Nast Traveler's* Gold List and was named the best hotel in the Caribbean/Bermuda/Bahamas by *Travel & Leisure* magazine. In 2000, The Fairmont Southampton Princess received the Four Diamond Award from AAA. Westend Properties Limited, a Bermuda corporation which is an indirect wholly-owned subsidiary of CPHREC, owns the hotel.

### *The Fairmont Hamilton Princess*

Built in 1884, The Fairmont Hamilton Princess is located in the heart of Hamilton, Bermuda's capital. In 2000, the hotel received numerous awards for its meeting facilities and services, including the Gold Key Award from *Meetings & Conventions* magazine and the Pinnacle Award from *Successful Meetings* magazine. The property is currently undergoing a major renovation program, including all guestrooms, and the addition of Entrée Gold, which is expected to be completed by the end of 2001. The property is owned by Hamilton Properties Limited, a Bermuda corporation, which is an indirect wholly-owned subsidiary of CPHREC.

### *The Fairmont Glitter Bay and The Fairmont Royal Pavilion*

These two resorts are located next to each other on a tropical estate that overlooks the Caribbean, on a half-mile stretch of beach on Barbados' west coast. The Fairmont Glitter Bay opened in 1981 and was followed by the opening of The Fairmont Royal Pavilion in 1987. The Fairmont Glitter Bay contains one, two and three-bedroom suites, some of which are privately owned. Resort amenities include tennis courts, a water sports centre and fitness centre. In 2000, AAA presented Four Diamond Awards to both resorts. CPHREC's interest in the two properties is held through its indirect wholly-owned subsidiary, CP Hotels (Barbados) Inc., a Barbados corporation.

### *Delta Vancouver Suites*

Delta Vancouver Suites is located in the waterfront district, close to the Vancouver Trade and Convention Centre. This all-suite hotel offers state-of-the-art technology in the heart of downtown Vancouver. CPHREC holds its 34.8% indirect interest in the property through Conference Plaza Hotel Limited Partnership, a British Columbia limited partnership.

### *Delta Vancouver Airport*

Located on nine acres of land on the banks of the Fraser River, the Delta Vancouver Airport is in close proximity to the Vancouver International Airport. FHR, through Delta, leases the land on which the property is situated. This lease expires in January 2009, and there are no further renewal rights.

## **Fees and Services**

Under their management contracts, Fairmont and Delta generally oversee all aspects of the day-to-day operations of each property on behalf of the owner, including hiring, training, and supervising staff, maintaining sales and marketing efforts, providing accounting and budgeting functions, providing support for management information systems and applications and providing for the safekeeping, repair and maintenance of the physical assets. Fairmont and Delta perform these services within the guidelines contained in the annual operating and capital plans that are submitted to the owners of the properties

during the last quarter of the preceding year for their review and approval. For these services, Fairmont and Delta typically earn a base fee calculated as a percentage of a property's gross revenues and may earn an incentive fee based on certain operating results of the property.

Fairmont and Delta provide centralized reservation services, marketing and sales programs and advertising services to properties under management. All of these services are provided by Fairmont and Delta on a cost recovery basis.

### **Owners' Responsibilities**

Under Fairmont and Delta's management contracts, the hotel owner generally is responsible for the funding of the hotel's working capital requirements and capital expenditures. Fairmont and Delta annually prepare an operating plan and capital expenditure budget for the property owner to approve. All structural changes, major refurbishing programs and major repairs require the separate approval of a property owner prior to implementation by Fairmont or Delta. The property owner also employs the hotel or resort staff and pays their salaries, including all benefits.

### **Capital Improvements and Investments**

FHR maintains the high quality of its properties through an annual maintenance program, which is funded by the owners of the properties. The annual maintenance program is based on a percentage of revenues and generally ranges from 4% to 5% of each property's gross revenue. Other projects are undertaken in order to maximize profits. During 2000, approximately \$87 million was spent on maintenance and improvements to the owned assets, the majority of which was spent on profit improving projects.

### **Marketing and Guest Recognition Programs**

Several e-commerce initiatives designed to assist in the optimization of asset performance commenced in 2000, including the development of a direct web-based hotel and activity booking system, a content management framework, sophisticated hotel search engines and marketing campaign management and reporting systems. Fairmont has also re-engineered its core systems to exploit the latest web-based technologies, which now operate over the Internet to any location in the world. Fairmont has built a digital infrastructure that interconnects its guestrooms, the employee base, the Internet and all the traditional travel distribution channels.

As part of the initiatives outlined above, FHR's existing third party web-based systems are being replaced with more sophisticated systems that will, among other things, enable guests to plan their Fairmont experience on-line. The new system includes a data warehouse which will capture the entire transaction history of 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 guests' spending and enhance loyalty to the brand. Guests will be able to view FHR's facilities and book their rooms on-line, as well as arrange a variety of other activities both off property and at the destination, including spa appointments and golf tee times. This information will then become a part of a guest's profile, making it possible to offer tailored packages to a guest at the next on-line session. Members of President's Club, Fairmont's most frequent guests, will have access to their own secure area of the web site where they can update their personal profiles. These enhanced profiles will then be communicated to personnel at the hotel or resort who will "customize" the guest's stay. In addition, this information will greatly enhance Fairmont's ability to communicate with this very important target group, ensuring that Fairmont provides the services that these customers consider important. Fairmont currently has approximately 85,000 active President's Club members. Delta Privilege, a guest recognition membership program designed for frequent business travellers, has approximately 45,000 active members.

## **Environmental Protection**

Environmental compliance programs are in place at all properties that FHR manages and owns. No significant issues were identified in any of the owned or managed properties as a result of the 2000 environmental questionnaire completed by all the hotels and resorts.

Environmental assessments were reviewed for the Fairmont hotels in the United States and the Princess hotels as part of the acquisition of the management contracts or assets of these properties. Any removal or containment of hazardous materials in Fairmont U.S. properties, as well as the Princess hotels, is being carried out during planned renovations of these properties. All of the properties purchased by Legacy are required by its Declaration of Trust to have environmental assessments.

In addition to compliance with regulations, FHR is a leader in promoting environmentally friendly activities at its owned and managed hotels. In 1991, the Green Partnership program was launched which focused mainly on recycling. This program was extended in 1998 with the goal of including the industrial composting of organic waste, eco-friendly meeting options for guests, the donation of left-over food to food banks and used soaps and amenities to charities, or their return to the manufacturer for recycling. CP Green Tours were introduced through partnerships with local ecotourism operators.

All of the golf courses at the Fairmont properties in Canada are registered with the Audubon Cooperative Sanctuary program and are working to achieve the requirements in the six categories of environmental planning: wildlife and habitat management; integrated pest management; water conservation; water quality management; outreach; and education. The golf courses at The Fairmont Banff Springs and The Fairmont Chateau Whistler have received the Audubon Accreditation. Plans are underway to incorporate the other Fairmont golf courses, wherever they are located, into the Audubon program.

Where development is planned in environmentally sensitive areas, FHR works with the local, provincial or state and federal governments with respect to environmental approvals. FHR endeavours to consult with the appropriate stakeholders and to conform with the best practices in environmental management.

## **Human Resources**

FHR currently employs or supervises more than 28,000 full-time and part-time employees. FHR encourages a strong service-based culture among employees with the goal of providing consistent, personalized service of an exceptional standard. Fairmont has developed a series of programs designed to select, train and motivate employees who will share its objective of ensuring that the expectations of guests are consistently met and exceeded. Delta has its own human resources training programs, which are similar to those at Fairmont.

Fairmont endeavours to ensure that it hires the people that are most suited for the positions offered by requiring each candidate to undergo a screening process which has been developed by a well-known management consulting firm. Delta's dedication to being an employer of choice was recognized in 2001 when *The Globe and Mail's* respected *Report on Business* magazine named the company one of the "Top 35 Companies To Work For" in Canada.

Approximately 50% of the employees at FHR's managed and owned hotels are members of collective bargaining units. These employees are represented by 20 unions, with a total of 62 bargaining units. The agreements with the various bargaining units have staggered expiry dates. Contract negotiations were successfully concluded with 12 bargaining units during 2000, while another ten contracts expired in 2000 and were subsequently settled in 2001 at market rates. Collective agreements with eight bargaining units expire in 2001.

## **Intellectual Property**

FHR believes that its brands are very important to its success. FHR has a significant number of tradenames, trademarks and service marks, including those relating to Fairmont and those acquired as a result of its purchase of the Delta and Princess portfolios. In addition, it is the owner of many domain names related to its brands. FHR vigorously defends its brands and spends considerable time and effort in surveillance, registration, protection and prosecution of infringers. Following the Effective Date of the Arrangement, Canadian Pacific Railway Company will own the “Canadian Pacific” trademark, but will grant a perpetual, royalty-free licence to FHR for its continued use of the trademark.

## **Insurance**

All hotels and resorts managed by FHR are insured against property damage, business interruption and liability at the expense of the owner of the hotel. Under these policies, FHR is also insured against loss of fee income in the event of a temporary business interruption arising from an insured peril at any of the properties that it manages. In addition, FHR obtains indemnities from the owners of the properties that it manages in respect of damages caused by acts, omissions and liabilities of the employees of the property or of FHR, other than damages resulting from certain actions of FHR and certain senior management personnel. FHR also maintains directors and officers liability insurance. FHR believes that its insurance coverage is adequate. However, if FHR were held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial conditions could be materially and adversely affected.

## **DESCRIPTION OF SHARE CAPITAL**

Upon completion of the Arrangement, FHR’s authorized capital will consist of an unlimited number of FHR Common Shares and two classes of an unlimited number of non-voting preferred shares (the “FHR Preferred Shares”), each issuable in series and limited to an aggregate liquidation value of Cdn\$500 million per class, and having the rights, privileges, restrictions and conditions described below.

### **Common Shares**

FHR Common Shares will carry two votes per share until the tenth trading day on the TSE following the Effective Date of the Arrangement, after which they will carry one vote per share. The holders of FHR Common Shares will be entitled, at the discretion of the board of directors of FHR, to receive out of any or all profits or surplus of FHR properly available for the payment of dividends (after the payment of any dividends payable on securities of FHR entitled to receive dividends in priority to FHR Common Shares), any dividend declared by the board of directors of FHR and payable by FHR on FHR Common Shares. The holders of FHR Common Shares will participate rateably in any distribution of the assets of FHR upon the liquidation, dissolution or winding-up of FHR or other distribution of its assets among its shareholders for the purpose of winding up its affairs. Such participation will be subject to the rights, privileges, restrictions and conditions attached to any securities of FHR issued and outstanding at such time ranking in priority to FHR Common Shares upon liquidation, dissolution or winding-up of FHR.

### **Preferred Shares**

There will be two classes of FHR Preferred Shares, the First Preferred Shares and the Second Preferred Shares. Each of the two classes of FHR Preferred Shares will be issuable in series. Subject to FHR’s articles, the board of directors of FHR will be authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of each class. Pursuant to the terms of the FHR Preferred Shares, FHR may not issue First Preferred Shares if by so doing the aggregate amount payable to the holders of the First Preferred Shares as a return of capital or other

distribution of the assets of FHR in the event of the liquidation, dissolution or winding up of FHR would exceed Cdn\$500 million. The same restriction applies to the Second Preferred Shares. FHR Preferred Shares will rank senior to FHR Common Shares with respect to dividends and return of capital upon a liquidation, dissolution or winding-up of FHR. Except with respect to matters as to which the holders of a class of FHR Preferred Shares are entitled by law to vote as a class, the holders of FHR Preferred Shares will not be entitled to receive notice of, or to vote at meetings of shareholders. The First Preferred Shares of all series will rank senior to the Second Preferred Shares of all series with respect to dividends and return of capital upon a liquidation, dissolution or winding-up of FHR.

As described in “Effects of the Arrangement — Treatment of Certain CPL Securities — CPL Preferred Shares” in Part I of the Circular, CPL currently has approximately 8.8 million CPL Preferred Shares issued and outstanding. Depending upon how the holders of the CPL Preferred Shares prefer to be treated in the Arrangement, some CPL Preferred Shares may remain outstanding following the Arrangement as FHR Preferred Shares or as FHR Investments Preferred Shares.

### SUMMARY FINANCIAL INFORMATION

The following summary financial information should be read together with the Management’s Discussion and Analysis, the historical consolidated financial statements of CPH&R, the pro forma consolidated financial statements of FHR, and the respective notes thereto, and the other information contained in this document.

#### Quarterly Information

The following table sets out certain financial information for CPH&R on a consolidated basis for each of the quarters in 2000 and 1999.

	2000				1999			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(Thousands of dollars)							
<b>Revenues . . . . .</b>	\$104,469	\$145,657	\$165,367	\$115,380	\$ 98,507	\$136,126	\$149,705	\$106,437
<b>Income from continuing operations . . . . .</b>	5,603	30,450	37,071	12,167	3,517	23,828	28,810	13,116
<b>Net income . . . . .</b>	5,603	30,450	37,071	12,167	3,517	23,828	28,810	13,116



**CANADIAN PACIFIC HOTELS & RESORTS INC.**

**SUMMARY INCOME STATEMENT AND  
OTHER FINANCIAL INFORMATION**

(Thousands of dollars)

	Six months ended June 30,		Year ended December 31,		
	2001 (unaudited)	2000 (unaudited)	2000	1999	1998
<b>SUMMARY INCOME STATEMENT</b>					
<b>Revenues</b>					
Hotel ownership operations . . . . .	\$ 261,912	\$ 222,620	\$ 464,694	\$ 439,708	\$ 303,612
Management operations . . . . .	17,448	17,167	41,846	29,119	20,449
Income from investments and other . .	7,624	10,339	24,333	21,948	15,900
	<u>286,984</u>	<u>250,126</u>	<u>530,873</u>	<u>490,775</u>	<u>339,961</u>
<b>Expenses</b>					
Hotel ownership operations . . . . .	185,601	157,509	320,804	311,892	218,892
Management operations . . . . .	7,156	8,067	14,684	11,620	8,034
Amortization . . . . .	24,986	18,591	39,760	32,019	22,446
	<u>217,743</u>	<u>184,167</u>	<u>375,248</u>	<u>355,531</u>	<u>249,372</u>
<b>Operating income</b> . . . . .	69,241	65,959	155,625	135,244	90,589
<b>Other (income) and expenses — net<sup>(1)</sup></b> . .	7,713	—	—	—	—
<b>Interest expense — net</b> . . . . .	21,966	15,368	31,246	30,736	21,217
<b>Income before income tax expense, non-controlling interest and goodwill charges</b> . . . . .	39,562	50,591	124,379	104,508	69,372
<b>Income tax expense (recovery)</b> . . . . .	(827)	11,528	32,934	33,051	18,616
<b>Non-controlling interest share of income of subsidiary</b> . . . . .	1,834	2,054	4,243	565	—
<b>Income before goodwill charges</b> . . . . .	38,555	37,009	87,202	70,892	50,756
<b>Goodwill charges</b> . . . . .	1,517	1,133	2,419	1,994	793
<b>Income taxes thereon</b> . . . . .	(284)	(177)	(508)	(373)	(166)
<b>Net income for the period</b> . . . . .	<u>\$ 37,322</u>	<u>\$ 36,053</u>	<u>\$ 85,291</u>	<u>\$ 69,271</u>	<u>\$ 50,129</u>
<b>OTHER FINANCIAL INFORMATION</b>					
<b>Revenues under management<sup>(2)</sup></b> . . . . .	\$ 813,449	\$ 779,303	\$1,625,559	\$1,179,602	\$ 800,318
<b>EBITDA</b> . . . . .	94,227	84,550	195,385	167,263	113,035
<b>Operating cash flow</b> . . . . .	20,779	30,019	106,663	81,937	51,206
<b>Capital expenditures</b> . . . . .	53,297	33,913	86,837	80,830	33,610
<b>Total assets</b> . . . . .	1,759,417	1,335,275	1,572,341	1,248,658	1,165,141
<b>Cash and cash equivalents</b> . . . . .	8,963	10,434	41,355	6,177	13,015
<b>Total debt</b> . . . . .	805,058	506,877	655,505	486,780	463,189
<b>Shareholder's equity</b> . . . . .	617,218	523,006	593,115	486,608	443,017

(1) Other income and expense comprises non-recurring items. See note 3 in the Consolidated Financial Statements of CPH&R.

(2) Revenues under management comprise all revenues generated by all CPH&R managed and owned hotels.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operational Review

For purposes of the management's discussion and analysis, the historical results reflect FHR's principal subsidiary, CPH&R, which holds FHR's interests in Fairmont, Delta, Legacy and the owned hotel and resort properties.

CPH&R's operating segments are management operations and hotel ownership. Currently, the majority of CPH&R's EBITDA is generated by hotel ownership. However, CPH&R intends to increase the proportion of its EBITDA generated by hotel and resort management activities, which are less capital intensive and which management believes will provide additional growth and stability in earnings and cash flow. Detailed information regarding the revenues and EBITDA of all of CPH&R's operations can be found in note 21 of the consolidated financial statements of CPH&R. Management's discussion and analysis, other than consolidated revenues and EBITDA comments, are based on the detailed information found in note 21 to the consolidated financial statements of CPH&R.

### Management Operations

CPH&R manages hotels and resorts under two subsidiaries and distinct brands, Fairmont and Delta. CPH&R owns 67% of Fairmont, North America's largest luxury hotel and resort management company as measured by rooms under management. Fairmont currently manages more than 18,000 rooms at 37 luxury properties in major city centres and key resort destinations throughout Canada, the United States, Mexico, Bermuda and Barbados. Delta, a wholly-owned subsidiary of CPH&R, is Canada's largest first class hotel and resort management company, with more than 12,000 rooms at 40 managed or franchised hotels and resorts principally located in Canada.

Under their management contracts, Fairmont and Delta generally oversee all aspects of the day-to-day operations of each property on behalf of the owner, including hiring, training and supervising staff, maintaining sales and marketing efforts, providing accounting and budgeting functions, providing support for management information systems and applications, and providing for the safekeeping, repair and maintenance of the physical assets. For these services, Fairmont and Delta typically earn a base fee calculated as a percentage of a property's gross revenues and may earn an incentive fee based on certain operating results of the property. Fairmont's incentive-based management contracts have an average term of more than 40 years, which management believes are among the longest in the industry. In 2001, Fairmont expects that less than one-third of its management contracts will earn incentive fees. Within the next two to three years, Fairmont expects substantially all of its current contracts to be earning incentive fees. The majority of these contracts have set thresholds that do not change over the life of the contract. Fairmont participates in up to 30% of earnings above the threshold. Delta's incentive-based management contracts have an average term of more than ten years. In 2001, approximately half of Delta's managed hotels are expected to earn incentive fees.

### Hotel Ownership

CPH&R has real estate ownership interests ranging from approximately 20% to 100% in 20 properties. All of CPH&R's hotel and resort ownership interests are held directly or indirectly by CPHREC, with the exception of a leasehold interest in Delta Vancouver Airport, which is held by Delta. Fairmont manages 18 of these hotels as luxury properties and Delta manages the other two as first class properties.

CPH&R also holds an approximate 34% interest in Legacy, which 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. CPH&R accounts for this ownership interest on an equity basis.

Legacy and CPH&R are parties to a strategic alliance agreement, which provides Legacy with the right to participate in any new investments made by CPH&R in resort or business hotels located in

Canada. CPH&R's strategic alliance agreement with and approximate 34% interest in Legacy provides CPH&R with a potential buyer for CPH&R's stabilized real estate assets while enabling CPH&R to retain long-term management contracts for these properties. In the event of a sale of a property to Legacy, CPH&R has the ability to participate, through its ownership interest in Legacy and through base and incentive management fees, in approximately 38% to 48% of the future increases in operating profits of the property, in addition to electing to receive a significant portion of its proceeds from the sale on a tax-free basis.

Upon the Effective Date of the Arrangement, certain assets of CPL will remain with FHR, including the Southtown lands in Toronto and the Coal Harbour lands in Vancouver. These properties provide FHR significant development opportunities in the future.

### **Significant Acquisitions and Dispositions**

CPH&R has transformed itself over the past few years through the creation of Fairmont and the acquisitions of Delta, the Princess hotel portfolio and other key resorts. Over this time, CPH&R has evolved from a Canadian-based hotel operator and owner to become the largest North American luxury hotel and resort management company as measured by rooms under management. CPH&R's goal is to further develop and leverage the Fairmont brand by seeking new management opportunities. As one method of supporting this goal, CPH&R intends to use its strong balance sheet and effective management capabilities to make selective acquisitions. CPH&R intends to focus on assets that are consistent in size, quality and customer base with CPH&R's existing portfolio, or that are in protected markets or have significant development potential. Once an acquired property has been stabilized, CPH&R will consider selling it to Legacy or a third party while retaining the long-term management contract.

In February 2001, CPHREC acquired the Kea Lani Resort on the Wailea coast in Maui, Hawaii. This resort was renamed The Fairmont Kea Lani Maui in the second quarter of 2001. The \$250 million acquisition was financed primarily through funds received on the sale of The Fairmont Empress and Fairmont Le Château Frontenac and expands CPH&R's presence in key resort markets. CPH&R sold the two resorts to Legacy for approximately \$201 million, enabling CPH&R to realize the value of these real estate assets while maintaining long-term management contracts.

In November 2000, CPHREC purchased the remaining 80% ownership interest in The Fairmont Chateau Whistler for approximately \$94 million in cash. CPH&R has recently announced it is in discussions with Legacy with regard to a possible disposition of its interest of The Fairmont Chateau Whistler.

In October 1999, Fairmont was created through the combination of CPH&R's luxury hotel management business with that of Fairmont L.P., a U.S.-based luxury hotel manager. Fairmont immediately became the largest luxury hotel management company in North America as measured by number of rooms under management. CPH&R contributed management contracts for 27 luxury properties while Fairmont L.P. contributed management contracts for seven hotels in key United States gateway cities and all rights to the Fairmont brand. This acquisition provided CPH&R with an international luxury brand under which it operates its world class resorts and its luxury hotel management business.

In August 1998, CPH&R acquired seven Princess hotel resort properties for total consideration of approximately \$542 million. At the time of acquisition, five of the resort properties were 100% owned (two in Bermuda, two in Mexico and one in the United States) and two in Barbados were 49% owned. With the exception of the privately-owned units at The Fairmont Glitter Bay, all of the resort properties are now 100% owned after the acquisition of the remaining 51% interest of the two Barbados resorts in January 2001.

In May 1998, CPH&R purchased Delta for approximately \$62 million. Delta, a first class Canadian hotel management company, had 27 hotels and 10,000 guestrooms under management or franchise and leasehold interests in three properties at the time of its acquisition. This acquisition enabled CPH&R to strengthen its leadership position in the Canadian marketplace, add a complementary brand to its portfolio and achieve significant economies of scale as a result of a major increase in the number of rooms under management.

**SUMMARY OPERATING STATISTICS — SIX-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000**

Comparable Hotels and Resorts are considered to be properties that were fully open under CPH&R management for at least the entire current and prior period. Given the strategic importance of the acquisition of The Fairmont Kea Lani Maui, it has been included in CPH&R's operating statistics in the following chart on a pro forma basis as if owned since the beginning of the prior period. Comparable Hotels and Resorts statistics exclude properties under significant renovation that would have a significant adverse effect on the properties' primary operations. For the six-month periods ending June 30, 2001 and June 30, 2000, The Fairmont Southampton Princess, The Fairmont Hamilton Princess and The Fairmont Pierre Marques have been excluded from the Comparable Hotels and Resorts data.

	Six months ended June 30,	
	2001	2000
<b>FAIRMONT MANAGED COMPARABLE HOTELS AND RESORTS</b>		
<b>Worldwide</b>		
RevPAR .....	\$115.02	\$113.81
ADR .....	174.72	165.34
Occupancy .....	65.8%	68.8%
<b>Canada</b>		
RevPAR .....	\$ 81.54	\$ 79.93
ADR .....	125.65	119.24
Occupancy .....	64.9%	67.0%
<b>U.S. and Other</b>		
RevPAR .....	\$159.39	\$158.70
ADR .....	237.62	222.81
Occupancy .....	67.1%	71.2%
<b>DELTA MANAGED COMPARABLE HOTELS AND RESORTS</b>		
<b>Canada</b>		
RevPAR .....	\$ 55.89	\$ 52.90
ADR .....	83.36	80.29
Occupancy .....	67.1%	65.9%
<b>OWNED COMPARABLE HOTELS AND RESORTS</b>		
<b>Worldwide</b>		
RevPAR .....	\$127.21	\$127.42
ADR .....	193.83	186.76
Occupancy .....	65.6%	68.2%
<b>Canada</b>		
RevPAR .....	\$116.85	\$116.61
ADR .....	181.31	175.09
Occupancy .....	64.4%	66.6%
<b>U.S. and Other</b>		
RevPAR .....	\$170.12	\$168.64
ADR .....	265.33	259.64
Occupancy .....	64.1%	65.0%

## **REVIEW OF OPERATING RESULTS — SIX-MONTH PERIOD ENDED JUNE 30, 2001 COMPARED TO SIX-MONTH PERIOD ENDED JUNE 30, 2000**

### **Consolidated Results**

CPH&R had revenues of \$287 million in 2001, up \$37 million or 14.7% from \$250 million during the same period of 2000. The acquisitions of The Fairmont Kea Lani Maui, The Fairmont Glitter Bay and The Fairmont Royal Pavilion in early 2001 and the remaining interest in The Fairmont Chateau Whistler late in 2000 generated \$67 million in additional revenue. This additional revenue was partially offset by the loss of revenue from the disposition of The Fairmont Empress and Fairmont Le Château Frontenac to Legacy in February 2001.

EBITDA for the first six months of 2001 increased by \$9 million or 11.4% to \$94 million as compared to \$85 million in the same period of 2000. As outlined above, the acquisitions of The Fairmont Kea Lani Maui and The Fairmont Chateau Whistler helped offset the dispositions of The Fairmont Empress and Fairmont Le Château Frontenac to Legacy and general declines caused by weakness in the North American economy. The EBITDA margin, defined as EBITDA as a percentage of revenues, declined slightly to 32.8% for the period from 33.8% in 2000 primarily due to increased energy costs.

### **Management Operations**

#### *Fairmont*

Revenues under management for the first six months of 2001 increased to \$653 million, up \$33 million or 5.4% from \$620 million in 2000. The acquisition of The Fairmont Kea Lani Maui accounted for most of the increase, raising revenues under management by \$31 million.

Fairmont earned fee revenues of \$20 million in 2001, a 10.1% increase from 2000. The acquisition of The Fairmont Kea Lani Maui accounted for almost half of the increase. Fee revenues included \$8 million in 2001 and \$7 million in 2000 from CPHREC's owned properties. Management fees are expected to increase in the second half of the year as certain management contracts reach their incentive fee threshold targets and start earning incentive fee revenues.

For the Fairmont portfolio of Comparable Hotels and Resorts, RevPAR increased 1.1% to \$115.02 in 2001 from \$113.81 in 2000. A 5.7% increase in ADR from \$165.34 to \$174.72 offset a decline in occupancy from 68.8% to 65.8% in 2000. RevPAR growth at the Canadian hotels was up 2.0% over the prior year, while RevPAR growth at U.S. and Other properties was relatively unchanged over the prior year.

Fairmont reported EBITDA of \$15 million in 2001, up 23.0% from \$12 million in the same period of 2000. The acquisition of The Fairmont Kea Lani Maui management contract in February 2001 as well as higher management fee revenues at the remaining U.S. and Other hotels helped to increase EBITDA. In addition, Fairmont reduced management operating expenses relative to 2000. The combination of these effects caused the EBITDA margin to increase to 73.3% from 65.6% during the first six months of 2000.

#### *Delta*

Revenues under management increased slightly to \$157 million in 2001, up \$1 million from \$156 million in 2000. Management fee revenues were \$5 million in the first half of 2001, up 3.2% from 2000. The addition of six new management contracts helped to offset a decline in revenues caused by the North American economic slowdown.

Delta's Comparable Hotels and Resorts RevPAR of \$55.89 was up 5.7% from \$52.90 in 2000. This increase was driven by a 3.8% improvement in ADR to \$83.36 and an increase in occupancy from 65.9% to 67.1%.

EBITDA from Delta's management operations was \$4 million in 2001, up 3.4% from 2000. Higher base management fee revenue throughout the portfolio and the addition of six new management agreements offset the loss of management fee revenue from two managed hotels that converted to franchises. EBITDA margin increased slightly to 68.0% in 2001, up from 67.8% in 2000.

### **Hotel Ownership Operations**

Revenues from hotel ownership operations were \$267 million in the first half of 2001, up \$38 million, or 16.6% from the prior year. This increase was driven primarily by the acquisition of the remaining interest in The Fairmont Royal Pavillion and The Fairmont Glitter Bay in January 2001, The Fairmont Kea Lani Maui in February 2001 and the remaining 80% interest in The Fairmont Chateau Whistler in November 2000, all of which helped offset the revenues lost from the sale of The Fairmont Empress and Fairmont Le Château Frontenac in February 2001. U.S. and Other hotels and resorts revenues were up \$39 million, primarily due to the acquisition of The Fairmont Kea Lani Maui. Revenues at the Canadian hotel and resort properties were down \$1 million in the first half of 2001 due to the poor skiing conditions in the Canadian Rockies and the effects of the North American economic slowdown during the second quarter.

RevPAR for Comparable Hotels and Resorts was virtually unchanged at \$127.21 in the first half of 2001 versus \$127.42 in the same period of 2000. Comparable ADR increased 3.8% to \$193.83 from \$186.76, offsetting a decline in occupancy from 68.2% to 65.6%. RevPAR at both the Canadian hotels and U.S. and Other hotels was virtually unchanged at \$116.85 and \$170.12, respectively.

EBITDA from CPH&R's hotel ownership operations of \$74 million in 2001 was up \$8 million, or 12.7%, from \$65 million in 2000. In particular, strong results at The Fairmont Kea Lani Maui and The Fairmont Chateau Whistler have helped to offset the affects of the North American slowdown. EBITDA margin was 27.5%, down marginally from 28.5% during the same period in 2000. This decline is primarily due to increased energy costs over 2000. Otherwise, operating costs remained stable. Included in CPH&R's hotel ownership EBITDA is approximately \$6 million of income from investments in 2001 versus \$7 million in 2000. Income from Legacy for the period was \$2 million, down from \$4 million in 2000.

### **Other Items**

#### *Amortization*

Amortization for the six months ended June 30, 2001 was \$25 million, up from \$19 million in 2000. This increase was consistent with the growth of ownership operations and profit improving projects at several of the owned hotels.

#### *Other Income and Expenses*

Other income consisted primarily of the gain resulting from the disposition of 9.9 million Legacy units through a secondary offering in May 2001. This disposition was consistent with CPH&R's stated intention of maintaining an approximate 34% ownership interest in Legacy. CPH&R also recorded a number of non-recurring expenses. Brand related technology costs of \$22 million were incurred and other one-time write-offs aggregated \$16 million. It is expected that another \$4 million in brand related and technology costs will be incurred to successfully market and launch certain new features related to CPH&R's e-commerce initiatives.

#### *Interest Expense, Net*

Interest expense of \$22 million was up \$7 million from \$15 million in 2000. This increase was primarily due to additional debt incurred to fund the acquisition of The Fairmont Kea Lani Maui and profit improving projects at various owned resorts.

*Income Tax Expense (Recovery)*

Income tax recovery for the six-month period ended June 30, 2001 was \$1 million, compared to income tax expense of \$12 million during the same period last year. The income tax recovery was primarily due to the non-taxable gain on the sale of Legacy units.

**SUMMARY OPERATING STATISTICS — YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998**

Comparable Hotels and Resorts are considered to be properties that were fully open under CPH&R management for at least the entire current and prior period. Given the strategic importance of the creation of Fairmont and the acquisition of Delta, the Princess hotel portfolio and The Fairmont Kea Lani Maui, they have been included in CPH&R's operating statistics on a pro forma basis as if owned since January 1, 1998. Comparable Hotels and Resorts statistics exclude properties under significant renovation which would have a significant adverse effect on the properties' primary operations. For the annual periods of 2000 versus 1999 and 1999 versus 1998, no properties were excluded as a result of significant renovations.

	Year ended December 31,		
	2000	1999	1998
<b>FAIRMONT MANAGED COMPARABLE HOTELS AND RESORTS</b>			
<b>Worldwide</b>			
RevPAR .....	\$116.77	\$109.32	\$104.41
ADR .....	170.30	156.42	147.61
Occupancy .....	68.6%	69.9%	70.7%
<b>Canada</b>			
RevPAR .....	\$ 88.73	\$ 87.06	\$ 79.17
ADR .....	127.71	118.01	107.25
Occupancy .....	69.5%	73.8%	73.8%
<b>U.S. and Other</b>			
RevPAR .....	\$162.58	\$149.13	\$148.33
ADR .....	223.09	204.87	198.46
Occupancy .....	72.9%	72.8%	74.7%
<b>DELTA MANAGED COMPARABLE HOTELS AND RESORTS</b>			
<b>Canada</b>			
RevPAR .....	\$ 56.30	\$ 55.39	\$ 52.76
ADR .....	81.97	78.59	72.48
Occupancy .....	68.7%	70.5%	72.8%

	Year ended December 31,		
	2000	1999	1998
<b>OWNED COMPARABLE HOTELS AND RESORTS</b>			
<b>Worldwide</b>			
RevPAR .....	\$119.60	\$108.37	\$103.26
ADR .....	181.84	165.10	156.44
Occupancy .....	65.8%	65.6%	66.0%
<b>Canada</b>			
RevPAR .....	\$114.20	\$103.91	\$ 99.61
ADR .....	174.62	158.98	151.19
Occupancy .....	65.4%	65.4%	65.9%
<b>U.S. and Other</b>			
RevPAR .....	\$136.10	\$117.01	\$118.65
ADR .....	225.76	213.81	208.12
Occupancy .....	60.3%	54.7%	57.0%

**REVIEW OF OPERATING RESULTS — YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999**

**Consolidated Results**

CPH&R reported revenues of \$531 million in 2000, up \$40 million or 8.2% from \$491 million in 1999. Improved results at the Princess hotel portfolio, a full year of management fee income from the October 1999 acquisition of Fairmont L.P. and the November 2000 acquisition of the remaining interest in The Fairmont Chateau Whistler were the primary factors behind the increase. Management fee revenues comprised 7.9% of total revenues in 2000, up from 5.9% in 1999. This increase reflects management's intention to increase management fees as a percentage of total revenue. Further growth in the proportion of management fee revenue is expected to occur as new management contracts are added and additional incentive fees from existing management contracts are realized.

EBITDA for 2000 increased by \$28 million or 16.8% to \$195 million as compared to \$167 million in 1999. Improved results from the Princess hotel portfolio and a full year of management fee income from the acquisition of Fairmont L.P. were the main reasons for the increase. The EBITDA margin increased to 36.8% from 34.1%, primarily due to an increased EBITDA contribution from management operations, which have relatively fixed costs.

**Management Operations**

*Fairmont*

In 2000, revenues under management increased to \$1.3 billion, up \$435 million or 50.4% from \$865 million in 1999. The seven management contracts obtained through the acquisition of Fairmont L.P. accounted for \$379 million of the increase and improved results at the Princess hotel portfolio increased revenues under management by \$33 million.

Fairmont and CPH&R's prior management company contributed fee revenues of \$43 million in 2000 versus \$25 million in 1999, representing a 72.0% increase. Fee revenues included \$13 million in 2000 and \$6 million in 1999 from CPHREC's owned properties in the period since Fairmont was established. This increase was due largely to the formation of Fairmont during 1999 and the subsequent addition of two new properties under management. Incentive fees were \$7 million in 2000 and accounted for 16.7% of Fairmont's total management fee revenues, versus 23.3% in 1999. The decline in incentive fees was the result of the inclusion of several new management contracts that were not paying incentive fees at the time.



Management expects this percentage to increase over time as the underlying hotel properties exceed their respective incentive fee threshold targets.

For the Fairmont portfolio of Comparable Hotels and Resorts, RevPAR increased 6.8% to \$116.77 in 2000 from \$109.32 in 1999. The greatest component of RevPAR growth came from the U.S. and Other hotels and resorts, where RevPAR was up 9.0%. The average occupancy was 68.6% in 2000, down slightly from 69.9% in 1999. These changes were in line with CPH&R's expectation of the effects of the revenue management program implemented in 2000 and an industry wide trend towards higher RevPAR.

Fairmont reported EBITDA of \$32 million in 2000, up 85.8% from the \$17 million reported in 1999. This increase was due to the inclusion of a full year's results of the October 1999 creation of Fairmont. EBITDA margin increased to 73.8% from 68.3% in 1999 reflecting the relatively fixed cost of operations, an increase in absolute incentive fee revenue and synergies realized through the creation of Fairmont. This combination of factors enabled Fairmont to greatly increase revenues while only incurring incremental additional costs.

### *Delta*

Revenues under management increased to \$328 million in 2000, up \$19 million or 6.1% from \$309 million in 1999 due to acquisitions and a strong North American economy.

Management fee revenues were \$12 million in 2000, up 19.9% from 1999. The addition of three management contracts in 2000, and a full year's results from the 1999 additions of two new management contracts and six transferred from CPH&R were the main reasons for the increase. Incentive fees were \$2 million in 2000 and accounted for 18.8% of total management fee revenues, up from 17.2% of total management fee revenues in 1999.

Delta's Comparable Hotels and Resorts RevPAR of \$56.30 was up from \$55.39 in 1999, notwithstanding an occupancy decline from 70.5% to 68.7%. These results were in line with the expectations generated by the revenue management program implemented at Delta, but were somewhat offset by weakness in the Vancouver market.

EBITDA from Delta's management operations was \$9 million in 2000, up from \$6 million in 1999. New properties under management, stringent cost controls and a strong North American economy were the primary factors behind this increase. Delta also was able to leverage its relatively fixed cost structure by increasing EBITDA 1.5 times its increase in revenues.

### **Hotel Ownership Operations**

Revenues from hotel ownership operations were \$478 million in 2000, up \$26 million, or 5.8% from the prior year. This increase was driven primarily by higher occupancies at the Fairmont Princess resorts, which benefited from the re-branding of the resorts to the Fairmont name, improved management and a robust economy. Revenues from U.S. and Other hotels accounted for \$225 million in 2000, an increase of \$30 million, or 15.2% from 1999. Revenues at the Canadian hotels and resorts were down \$4 million in 2000 due to the sale of two hotels to Legacy in the prior year, which contributed \$17 million in revenues in 1999.

RevPAR for Comparable Hotels and Resorts rose 10.4% to \$119.60 in 2000 from \$108.37 in 1999, primarily through higher ADR. U.S. and Other properties showed the greatest improvement, with RevPAR increasing 16.3%, while Canadian properties had a 9.9% increase over 1999.

EBITDA from CPH&R's hotel ownership operations of \$143 million in 2000 was up \$10 million, or 7.5%, from \$133 million in 1999. In particular, the Princess hotels produced excellent results in 2000. EBITDA at the Princess hotels was up \$10 million, or 22.7%, 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 \$15 million, or 31.8% over 1999. The increase was attributable to significantly increased revenues and effective cost control programs initiated at all the Princess hotels, particularly The Fairmont Scottsdale Princess, The Fairmont Acapulco Princess and The Fairmont Hamilton Princess. As a result, the EBITDA margin at the Princess hotel properties increased to 24.9% from 23.3% in 1999. EBITDA at the Canadian hotels and resorts was \$72 million during 2000, a slight decline of \$3 million compared to 1999. This decline was due mainly to the sale of two hotels in mid-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 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 Airlines reduced airline capacity and resulted in much higher pricing for CPH&R's international travel partners. Another factor was the weakness of European currencies, which made Europe a generally more attractive vacation destination than North America. EBITDA from hotel ownership operations also included \$13 million of income from investments, a \$1 million increase from 1999.

The equity investment in Legacy contributed \$11 million of EBITDA in 2000 versus \$10 million in 1999. Growth at Legacy resulted from strategic acquisitions and strong fundamentals in most Canadian city centre markets.

## **Other Items**

### *Amortization*

In 2000, amortization was \$40 million, compared to \$32 million in 1999. This increase was consistent with the growth of both management and ownership operations over the past two years. Specifically, profit-improving projects at owned hotels and amortization expenses resulting from the Fairmont acquisition were the primary drivers behind this increase.

### *Interest Expense, Net*

Interest expense of \$31 million was relatively unchanged from 1999. See "Liquidity and Capital Resources".

### *Income Tax Expense*

Income tax expense was \$33 million in both 2000 and 1999. The lower income tax rate was related to a reduction in future corporate income tax rates.

## **REVIEW OF OPERATING RESULTS — YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998**

### **Consolidated Results**

CPH&R reported revenues of \$491 million in 1999, up \$151 million or 44.4% from \$340 million in 1998. The October 1999 creation of Fairmont and a full year of results from the 1998 acquisitions of Delta and the Princess hotel portfolio were the main reasons for the increase. Management fees as a percentage of revenue were 6%, consistent with the level attained in 1998.

EBITDA for 1999 increased 48.0% to \$167 million as compared to \$113 million in 1998. The inclusion of a full year's results of the August 1998 acquisition of the Princess hotel portfolio and the creation of Fairmont were the main reasons for the change. The EBITDA margin was 34.1%, up slightly from 33.2% in 1998, primarily due to changes in the composition of the hotel portfolio resulting from the inclusion of a full year of results from the Princess hotel portfolio.

## **Management Operations**

### *Fairmont*

During 1999, revenues under management increased to \$865 million, up \$200 million or 30.0% from \$665 million in 1998. Seven management contracts acquired through the creation of Fairmont and a full year of results from the 1998 Princess hotel portfolio accounted for the majority of the increase.

Fairmont and CPH&R's prior management company earned fee revenues of \$25 million in 1999, up \$10 million or 64.0% over \$15 million in 1998. Fee revenues included \$6 million in 1999 from CPHREC's owned properties in the period since Fairmont was established. Incentive fees were \$6 million in 1999 and accounted for 23.3% of Fairmont's total management fee revenues.

For the Fairmont portfolio of Comparable Hotels and Resorts, RevPAR increased 4.7% to \$109.32 in 1999 from \$104.41 in 1998. The average occupancy was 69.9% in 1999, down from 70.7% in 1998. Profit improving projects and a strong Canadian economy boosted RevPAR at the Canadian hotels and resorts by 10.0% in 1999 to \$87.06. Results were strong across all properties, with city centre and resort properties showing improved results. RevPAR at U.S. and Other hotels was relatively flat over the prior year at \$149.13.

Fairmont reported EBITDA of \$17 million in 1999, up \$8 million or 81.9% from the \$9 million reported in 1998. This increase was principally driven by the October 1999 creation of Fairmont. The EBITDA margin was 68.3%, up from 61.6% in 1998. The establishment of Fairmont enabled management to further leverage its relatively fixed cost structure, thereby increasing profit margins.

### *Delta*

In 1999, revenues under management increased to \$309 million. Management fee revenues were \$10 million in 1999, up from \$6 million in the eight months ended December 1998, primarily from reporting a full year of management fees and the transfer of six management contracts from CPH&R's prior management company in July 1999.

Delta's RevPAR of \$55.39 was up 5.0% over \$52.76 in 1998. Occupancy declined from 72.8% in 1998 to 70.5% in 1999 as management focused on increasing RevPAR and profit margins through higher ADR.

EBITDA from Delta's management operations was \$6 million in 1999, compared to \$4 million for the eight months ended December 1998. Additional properties under management and operational synergies derived from the creation by Fairmont helped fuel the increase.

## **Hotel Ownership Operations**

Revenues from hotel ownership operations were \$451 million in 1999, up \$139 million or 44.5% from \$312 million in 1998. The Princess hotel portfolio, which was acquired in August 1998, contributed an additional \$121 million in revenues. The Canadian hotels and resorts contributed the remainder of the increase in revenues. Every Canadian property showed improvement, and Fairmont Le Château Montebello, Fairmont Le Château Frontenac and The Fairmont Banff Springs in particular had significant year over year increases.

RevPAR for Comparable Hotels and Resorts rose 4.9% to \$108.37 in 1999 from \$103.26 in 1998, propelled by an increase in ADR. Canadian properties achieved modest gains, with RevPAR increasing 4.3% to \$103.91 in 1999 on increased ADR. U.S. and Other hotels declined slightly over this period, from \$118.65 to \$117.01.

EBITDA from CPH&R's hotel ownership operations of \$133 million in 1999 was up \$40 million, or 43.7%, from \$93 million in 1998. This increase was primarily due to a \$31 million increase in EBITDA from the recognition of a full year's results from the Princess hotels. Improved results at the Canadian properties helped increase EBITDA by \$5 million. The EBITDA margin was 29.6%, down slightly from 29.7% in 1998. Included in CPH&R's hotel ownership EBITDA is approximately \$12 million in income from investments in 1999 versus \$9 million in 1998.

Income from Legacy for the year was \$10 million, up from \$7 million in 1998.

## **Other Items**

### *Amortization*

Amortization was \$32 million in 1999, up \$10 million from 1998. The increase was due in large part to the 1998 acquisition of the Princess hotel portfolio.

### *Interest Expense, Net*

Interest expense in 1999 was \$31 million, up \$10 million from 1998. The increase was due to additional intercompany debt used in the Princess hotel portfolio acquisition.

### *Income Tax Expense*

Income tax expense in 1999 was \$33 million, up from \$19 million in 1998. This increase was due to higher operating income generated from the Princess hotel portfolio acquisition and improved results at the Canadian hotels and resorts.

## **LIQUIDITY AND CAPITAL RESOURCES**

CPH&R generally utilizes cash from operations, debt facilities and equity financing to make equity investments, obtain or maintain long-term management contracts, make selective acquisitions of individual hotels, resorts or portfolios, and to fund its share of hotel and resort capital improvements and operating requirements. Cash and cash equivalents on hand at December 31, 2000 totalled \$41 million, an increase of \$35 million from 1999. Cash flow from operations during the year of \$107 million, plus increased financing activities of \$174 million, funded 2000's investing activities of \$245 million.

### **Capital Expenditures**

During the year ended December 31, 2000, CPH&R invested \$245 million in new and existing assets as compared to \$113 million in 1999. A total of approximately \$87 million was spent on both profit improving and maintenance capital expenditures for owned properties, an amount comparable to the total spent in 1999 of \$81 million. Acquisitions and investments during the year included approximately \$94 million spent to acquire the remaining interest in The Fairmont Chateau Whistler, \$17 million for additional Legacy units to preserve CPH&R's investment level and approximately \$20 million advanced pursuant to new hotel management contracts. Acquisitions and investments in 1999 were significantly lower in dollar value, however CPH&R's investment in the Fairmont management company that year was a strategic step to future growth.

In 2001, based upon the current business plan, CPH&R expects capital spending to total approximately \$450 million, consisting of approximately \$270 million for acquisitions, the majority of which is the 100% interest in The Fairmont Kea Lani Maui completed in February 2001, and approximately \$180 million for profit enhancing and maintenance type capital expenditures, technology and management contracts. Profit enhancing projects include completion of the new motor coach entrance to The Fairmont Banff Springs, a new spa, lobby renovation and addition of Entrée Gold rooms at The Fairmont Southampton Princess and The Fairmont Hamilton Princess and a new meeting facility and staff accommodation at The Fairmont Chateau Lake Louise. Other investments include the recently announced Dubai hotel as well as e-commerce initiatives. Capital spending in 2001 will be funded from a combination of cash flow from operating activities, the strategic sale of assets and CPH&R's financing sources as described below. CPH&R completed the sale of The Fairmont Empress and Fairmont Le Château Frontenac in February 2001 for proceeds of \$201 million and has recently announced that it is in discussions with Legacy for the potential sale of its interest in The Fairmont Chateau Whistler.

## **Debt and Equity Financing**

As at December 31, 2000, CPH&R had approximately \$656 million of debt outstanding, of which \$580 million was payable to CPL and its affiliates, at an average interest rate of approximately 6.0% per annum, as compared to \$487 million at December 31, 1999 (\$428 million was payable to CPL and its affiliates) with an average interest rate of approximately 6.9% per annum. During 2000, CPH&R increased debt levels by \$241 million, primarily funded from the cash reserves of its parent, and repaid \$74 million of affiliate debt. Subject to the Arrangement, CPH&R has a commitment from CPL and its affiliates to refinance the maturing debt and not to demand repayment of the revolving term loans.

As part of the Arrangement, CPH&R will repay its CPL and affiliate debt through new equity and recently arranged bank facilities totalling Cdn\$800 million. The new bank facilities consist of an unsecured Cdn\$600 million three-year revolving facility and an unsecured Cdn\$200 million 364-day revolving operating loan. In the event that certain financial ratios are exceeded for a specified period of time, CPH&R will be required to secure such facilities. Additionally, one of CPH&R's subsidiaries has available to it a \$75 million, 364-day operating line, of which approximately \$17 million was outstanding at December 31, 2000 compared to nil in 1999.

Equity financing has historically been limited to subscriptions of equity from CPH&R's parent, CPL, and accordingly subject to the parent's access to equity and debt markets. However, in the future, FHR will have the opportunity, subject to market conditions, to issue its own equity securities directly.

FHR believes that the credit facilities, cash on hand, expected cash flow from operations and the sale of certain stabilized assets, when combined with the opportunity to directly access the equity market, will be adequate to allow it to finance all of its normal operating needs and commitments to achieve its growth objectives.

## **Operating Cash Flow**

For the year ended December 31, 2000, cash flow from operations was \$107 million, as compared to \$82 million in 1999. The \$25 million increase in cash flow was primarily due to an increase in net income after being adjusted for the non-cash amortization and goodwill charges.

Cash flow from operations in 2001 is expected to exceed cash flow from operations in 2000. FHR expects that a combination of cash flow from operations in 2001 and cash proceeds realized from asset sales will be re-invested to generate new revenue streams from additional management contracts, improvements in certain existing owned properties and to provide the equity component for selective acquisitions.

## **OUTLOOK**

### **Strategic**

Management's key strategic objectives for the next 12 months include:

- maintaining and enhancing the RevPAR growth and operating profits for both FHR's managed and owned hotels;
- identifying and pursuing other opportunities for growth that represent consistent and productive extensions of the Fairmont and Delta brands. These include incremental investments such as spas, golf courses, residential and retail opportunities;
- achieving growth in the management operations through the addition of new single and multiple incentive-based management contract opportunities; and
- identifying and pursuing opportunities to use FHR's strong balance sheet and effective management capabilities to make selective acquisitions in key North American gateway cities, exclusive resort destinations and strategic international markets.

## Financial

There are a number of financial factors that may impact FHR's operations in the coming year, including:

- after the Effective Date of the Arrangement, FHR will inherit significant tax assets, including substantial CPL operating and capital losses and a receivable of approximately Cdn\$56 million from PanCanadian Petroleum Limited;
- FHR's free cash flow may exceed cash required to fund profit enhancing capital expenditures, maintain debt levels at appropriate levels to facilitate continued access to the capital markets at the best available rates or acquire selective management contracts or properties. In these instances, FHR will consider repurchasing FHR Common Shares if management believes such shares are undervalued in relation to FHR's EBITDA and earnings;
- historically, FHR's access to the debt and equity markets was solely through CPL and its affiliates. Following the Arrangement, FHR's access to debt financing will be subject to its own operating strength and condition. In addition to debt financing, FHR will have the opportunity, subject to market conditions, to issue equity securities of its own, as opposed to relying on its former parent; and
- the slowing North American economy may have a negative impact on FHR's operations.

### CONSOLIDATED CAPITALIZATION

The following table sets out the consolidated capitalization of FHR as at December 31, 2000 and June 30, 2001, as reflected in the consolidated financial statements of CPH&R and as of June 30, 2001 after giving effect to the Arrangement. This table should be read in conjunction with the consolidated financial statements of CPH&R and the pro forma consolidated financial statements of FHR contained in this document.

<u>Capital</u>	<u>Outstanding as at December 31, 2000<sup>(1)</sup></u>	<u>Outstanding as at June 30, 2001<sup>(1)</sup></u>	<u>Outstanding as at June 30, 2001 after giving effect to the Arrangement (Pro forma)<sup>(2)</sup></u>
	(thousands of dollars)		
<b>Debt capital</b>			
Inter-company debt . . . . .	\$ 580,154	\$ 697,898	\$ —
Third party debt . . . . .	75,351	107,160	163,629
<b>Share capital<sup>(3)</sup></b>			
Common shares . . . . .	592,354	592,354	1,164,943 (79,085,701 shares) <sup>(4)</sup>
Contributed surplus . . . . .	4,359	4,359	57,420
Foreign currency translation adjustments . . . .	4,050	14,551	44,554
Retained earnings (deficit) . . . . .	(7,648)	5,954	74,364
<b>Total capitalization . . . . .</b>	<u>\$1,248,620</u>	<u>\$1,422,276</u>	<u>\$1,504,910</u>

(1) Based on CPH&R. See the Consolidated Financial Statements of CPH&R.

(2) Based on FHR. See the Pro forma Consolidated Financial Statements of FHR.

(3) After giving effect to the Arrangement, the authorized capital of FHR will consist of an unlimited number of FHR Common Shares and an unlimited number of FHR Preferred Shares. This table assumes that no FHR Preferred Shares or FHR Investments Preferred Shares are outstanding after giving effect to the Arrangement.

(4) Based on 316,342,807 CPL Common Shares issued and outstanding as at June 30, 2001. The actual number of FHR Common Shares issued and outstanding after giving effect to the Arrangement may differ as a result of the treatment of fractional interests of such shares. See "Effects of the Arrangement — Treatment of Fractional Interests" in Part I of the Circular.

## OPTIONS TO PURCHASE SECURITIES

Based upon the number of outstanding CPL Stock Options as at July 31, 2001, there will be an aggregate of 618,261.25 options of FHR issued and outstanding upon completion of the Arrangement, determined in the manner described in “Treatment of CPL Employees and Employee Benefit Plans — CPL Stock Option Plan” in Part I of the Circular. After the Effective Date of the Arrangement, the details regarding the outstanding options of FHR held by the employees, executive officers and directors of FHR and its subsidiaries and by other persons are as follows.

<u>Group (Number of Group)</u>	<u>Aggregate FHR Common Shares under Option<sup>(1)(2)(4)</sup></u>	<u>Expiry Dates</u>
Executive Officers of FHR (7 persons) . . . . .	40,949.50	June 2005 to February 2010
Executive Officers of subsidiaries of FHR (8 persons) . . . . .	7,794.50	December 2003 to June 2005
Employees of subsidiaries of FHR (1 person) . . . . .	558.25	December 2003
Other <sup>(3)</sup> . . . . .	568,959	July 2002 to September 2010
Total Stock Options . . . . .	<u>618,261.25</u>	

- (1) Excludes options to be granted pursuant to the Key Employee Stock Option Plan (the “Employee Option Plan”) of FHR. For a description of the options and how the exercise price is calculated pursuant to the Employee Option Plan, see “Stock Option Plans — Key Employee Stock Option Plan”.
- (2) Excludes options to be granted pursuant to the Directors’ Stock Option Plan (the “Directors’ Option Plan”) of FHR. For a description of the options and how the exercise price is calculated pursuant to the Directors’ Option Plan, see “Stock Option Plans — Directors’ Stock Option Plan”.
- (3) Consists of FHR options which will be held by persons other than directors, executive officers or employees of FHR and its subsidiaries after giving effect to the Arrangement. See “Treatment of CPL Employees and Employee Benefit Plans — CPL Stock Option Plan” in Part I of the Circular.
- (4) Fractional options of FHR will be paid out in cash on exercise of such options.

## DIRECTORS AND OFFICERS

The following are the names and the municipalities of residence of the individuals who will be FHR’s directors and senior officers following the Arrangement, their positions and principal occupations within the past five years, and, where applicable, the period during which each director has served as a director of CPL. Each of the directors will serve his or her term in office until FHR’s annual meeting in 2002.

### Directors

*Stephen E. Bachand, Ponte Vedra Beach, Florida*

Stephen E. Bachand, 63, is the former President and Chief Executive Officer of Canadian Tire Corporation, Limited, a hard goods retailer specializing in automotive, sports, leisure and home products. He held that position from March 1993 until August 2000. He has been a director of CPL since 1997 and he is also a director of the Bank of Montreal.

*William R. Fatt, Toronto, Ontario*

William R. Fatt, 50, was appointed Chairman and Chief Executive Officer of CPH&R in January 1998. He is Vice Chairman, Chief Executive Officer and a Trustee of Legacy, as well as Executive Vice President of CPL. From 1990 to his appointment to CPH&R, Mr. Fatt had been Chief Financial Officer with CPL. He is also a director of Jim Pattison Group Inc., Enbridge Inc., Sun Life Financial Services of Canada Inc., Toronto General & Western Hospital Foundation and the University of Guelph.

*Angus A. McNaughton, San Francisco, California*

Angus A. McNaughton, 70, is President, Genstar Investment Corporation, a private investment company. He has held that position since 1987. He has been a member of the board of directors of CPL since 1985. He is also a director and Vice-Chairman of Barrick Gold Corporation and a director of Varian Semiconductor Equipment Associates, Diversified Collection Services Inc., Sun Life Assurance Company of Canada (U.S.) and Sun Life and Annuity Company of New York.

*John D. McNeil, Toronto, Ontario*

John D. McNeil, 67, will serve as Chairman of the Board of FHR. He is the former Chairman of the Executive Committee and a director of Sun Life Assurance Company of Canada and Sun Life Financial Services of Canada Inc., financial services companies. He was Chairman and Chief Executive Officer of Sun Life from May 1988 until April 1998 and Chairman until April 1999. He was elected to the board of directors of CPL in 1992. He is also a director of DWL Incorporated, Hampton Re Holdings Ltd., Hampton Re Limited, The Canadian Ditchley Foundation, a Trustee of The Hospital for Sick Children (Toronto), and chairman and director of the Canada-India Business Counsel.

*David P. O'Brien, Calgary, Alberta*

David P. O'Brien, 59, is the Chairman, President and Chief Executive Officer of CPL, positions that he has held from May 1996. Following the completion of the Arrangement, he will retire from these positions. Mr. O'Brien was first elected as a director of CPL in 1995. He is also a director and Chairman of PanCanadian Petroleum Limited. He is a director of the Royal Bank of Canada, Air Canada, Inco Limited, the C.D. Howe Institute, The Conference Board of Canada and Chairman of the Business Council on National Issues.

*John L. Sharpe, Scottsdale, Arizona*

John L. Sharpe, 58, is the former President and Chief Operating Officer of Four Seasons Hotels Inc., which position he held from 1985 to 1999. He also served on the board of directors of Four Seasons Hotels Inc. during the same period. Mr. Sharpe is a director of Elizabeth Arden Salons and Spas Inc. and Grand Expeditions Inc. He serves as a trustee of the Culinary Institute of America, as a member of the Cornell University Council and as Chair of the Industry Advisory Board for the School of Hotel Administration at Cornell University.

*L. Peter Sharpe, Toronto, Ontario*

L. Peter Sharpe, 54, was appointed President and Chief Executive Officer of The Cadillac Fairview Corporation Limited, a real estate company, in April 2000. Prior to this appointment, Mr. Sharpe was Executive Vice President, The Cadillac Fairview Corporation Limited, a position he held from 1984. He is also a Trustee and member of the Investment Committee for Legacy, and serves as a director of The Sunnybrook Foundation and the Canadian Institute of Public and Private Real Estate Companies.

*Allan R. Taylor, O.C., Toronto, Ontario*

Allan R. Taylor, 68, was Chairman and Chief Executive Officer of the Royal Bank of Canada from 1986 to 1994 and Chairman until 1995. He continues to be a director of the Royal Bank of Canada. He has been a director of CPL since 1986 and is also a director of General Motors of Canada Limited, The Canadian Ditchley Foundation, The Canadian Institute for Advanced Research, and Canadian Neuroscience Partners.



*Carole Taylor, Vancouver, British Columbia*

Carole Taylor, 55, was appointed to the position of Chair of the CBC/Radio-Canada's Board of Directors in July 2001. She was the Chair of Canada Ports Corporation from 1997 until 1999. During that time she also served as Chair of the Vancouver Port Corporation. Prior to her involvement with the Ports system, she was elected to the Vancouver City Council for two terms. Currently she is Chair-elect of the Vancouver Board of Trade, Deputy-Chair of Simon Fraser University's Centre for Dialogue, as well as a director of HSBC Bank Canada and Canfor Corporation. Ms. Taylor has served on CPL's board since 1999.

#### **Committees of the Board of Directors**

Messrs. McNeil, O'Brien, J. Sharpe, P. Sharpe and Taylor (Chair) will serve on the Audit Committee. Messrs. Bachand, McNeil (Chair) and P. Sharpe will serve on the Corporate Governance and Nominating Committee. Messrs. Bachand (Chair) and Taylor and Ms. Taylor will serve on the Management Resources and Compensation Committee. Messrs. O'Brien and J. Sharpe (Chair) and Ms. Taylor will serve on the Environmental and Safety Committee.

#### **Senior Officers**

*William R. Fatt, Chief Executive Officer, Toronto, Ontario*

William R. Fatt, 50, was appointed Chairman and Chief Executive Officer of CPH&R in January 1998. He is Vice Chairman, Chief Executive Officer and a Trustee of Legacy, as well as Executive Vice-President of CPL. From 1990 to his appointment at CPH&R, Mr. Fatt was Chief Financial Officer, CPL.

*Chris J. Cahill, President and Chief Operating Officer, Oakville, Ontario*

Chris J. Cahill, 47, was appointed President and Chief Operating Officer for CPH&R in January 1998. He is also Executive Vice President and a Trustee of Legacy. Before his appointment to the position of President and Chief Operating Officer, Mr. Cahill held the position of Executive Vice President, CPH&R, from 1995 to 1997.

*M. Jerry Patava, Executive Vice President and Chief Financial Officer, Toronto, Ontario*

M. Jerry Patava, 47, was appointed Executive Vice President and Chief Financial Officer of CPH&R in January 1998. He is also a Trustee, Executive Vice President and Chief Financial Officer of Legacy. In 1990, Mr. Patava became Vice-President and Treasurer of CPL and held this appointment until he joined CPH&R.

*Thomas W. Storey, Executive Vice President, Business Development and Strategy, Alpena, Michigan*

Thomas W. Storey, 44, joined FHR in February 2001. Mr. Storey was with Promus Hotels, a hotel management and ownership company, from 1997 to 2000, as Executive Vice President Strategic Planning & Venture Operations from 1998 until 2000 and Executive Vice President Marketing from 1997 to 1998. Prior to joining Promus Hotels, he was Executive Vice President Sales and Marketing at Doubletree Hotels.

*John M. Johnston, Executive Vice President, Toronto, Ontario*

John M. Johnston, 53, was appointed President of Delta in October 1998 following its acquisition by CPH&R. From 1996 to 1998, Mr. Johnston served as Executive Vice President Operations for Loews Hotels in New York, a hotel management company. From 1990 until 1996, Mr. Johnston was Vice-President, Asia for Four Seasons Hotels Inc., a hotel management company.

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

Terence P. Badour, 45, was appointed Vice President, General Counsel and Corporate Secretary of CPH&R in 1998. He is also Secretary of Legacy. Mr. Badour was appointed Corporate Counsel and Assistant Secretary of CPL in 1996 and served in that capacity until he joined CPH&R.

*Neil J. Labatte, Senior Vice President, Real Estate, Toronto, Ontario*

Neil J. Labatte, 44, joined CPH&R in 1997 as Vice President Acquisitions, and in July 1999, was also appointed President and Chief Operating Officer of Legacy, a position he still holds. For the four years prior to joining CPH&R, Mr. Labatte was a founder, principal and board member of A.E.W. Mexico Company, a real estate investment management company.

### **Shareholdings of Directors and Senior Officers**

As at August 3, 2001 and after giving effect to the Arrangement, the directors and senior officers, as a group, beneficially owned, either directly or indirectly, or exercised control or direction over less than 1% of any class of voting securities or those of any subsidiaries.

### **COMPENSATION OF DIRECTORS**

Each director who is not an employee of FHR is paid a basic annual retainer of \$20,000. The non-executive chairman of the board of directors is paid an additional retainer of \$65,000. An additional amount of \$2,000 per year is paid to a director for each committee on which he or she sits, and an amount of \$3,000 per year is paid to the chairman of each committee of the board, or \$4,000 in the case of the chair of the Audit Committee. A fee of \$1,500 is paid to each director for board meetings attended and a fee of \$1,000 is paid to each committee member for committee meetings attended, up to a maximum of \$3,000 per day. Salaried officers of FHR are not compensated for serving as a director, or as a member of any committee of the board. Directors are reimbursed for their costs in travelling to and attending board or committee meetings. Non-employee directors are also eligible to participate in the Directors' Stock Option Plan that is summarized below under Stock Option Plans.

### **EXECUTIVE COMPENSATION**

The following sets out the basis upon which the executive officers, including the Chief Executive Officer and the four other most highly compensated executive officers (the "Named Executive Officers") of FHR will be compensated following the Effective Date of the Arrangement. The Management Resources and Compensation Committee of FHR (the "Compensation Committee") will be responsible for, among other matters, determining the compensation to be paid to the executive officers of FHR. The Compensation Committee will also assess the performance of the Chief Executive Officer and determine his compensation. The Compensation Committee will report its compensation determinations to the board of directors. The board of directors as a whole will review the recommendations of the Compensation Committee with regard to the grant of options under the Key Employee Stock Option Plan and will have final approval on compensation matters for executive officers.

### **Principles of Executive Compensation**

FHR's executive compensation program is designed to pay for performance and be competitive with leading North American lodging companies. The program is designed to attract and retain executives critical to FHR's short-term and long-term success and to continue to provide executives with compensation which is competitive with the market.

The Compensation Committee has obtained advice from a leading independent compensation consulting firm with respect to the components of its executive compensation package and the appropriate levels of compensation for each individual executive.

Compensation for executive officers consists of a base salary, an annual bonus opportunity and stock-based compensation. The bonus and stock-based incentive compensation of FHR is designed to focus on shareholder value creation and operating performance improvement.

### **Base Salary**

The Compensation Committee sets the base salaries of the executive officers following a review of market data. Salaries are adjusted, as needed, based on individual performance, responsibility and experience to ensure they reflect the contribution of each officer. In establishing the base salaries, the committee uses a benchmark of average base salaries paid to the senior executive officers of the comparator group.

### **Annual Bonus**

FHR's Short-Term Incentive Plan ("STIP") provides an opportunity for participants to earn an annual cash award based on the achievement of financial targets and individual performance criteria. Financial performance is measured by comparing actual results against targets established at the beginning of the year. The financial and individual performance criteria vary based upon the responsibilities of the participant.

Potential awards are expressed as a percentage of base salary. For the Named Executive Officers, potential awards are expected to range between 30% and 50% of base salary when targets are met and between 60% and 100% when performance criteria above the target level are met.

### **Long-Term Incentive Plans**

Each of the executive officers is currently entitled to participate in the Long-Term Incentive Plan ("LTIP") of CPL or CPH&R. In either case, LTIP participants are eligible to earn a cash award based on a specified performance period. The current performance period ends on December 31, 2001, in respect of which any payments will be made in January 2002. In addition, with the early termination of the LTIP, any awards earned in 2001 (the first year of the next performance period) will be paid out early in January 2002. In lieu of any future grants under LTIP over the next three years, the executive officers will be granted options under the Key Employee Stock Option Plan.

### **Stock-Based Compensation Programs**

#### *Key Employee Stock Option Plan*

Subject to the approval of the CPL Shareholders, upon completion of the Arrangement, FHR will have a new stock option plan pursuant to which stock options will be granted to officers and employees of FHR and to others who are eligible to receive option grants. See "Stock Option Plans — Key Employee Stock Option Plan".

The Compensation Committee has determined that shortly after the Effective Date of the Arrangement, and assuming shareholder approval of the plan at the CPL Meeting, the Named Executive Officers will be granted options to purchase the following number of FHR Common Shares, in each case with an exercise price equal to the closing price on the TSE on the trading day prior to the grant: Mr. Fatt, 500,000; Mr. Cahill, 250,000; Messrs. Patava and Storey, 160,000 each; and Mr. Johnston, 120,000.

### *Deferred Share Unit Plan*

In order to ensure that the Named Executive Officers have an appropriate incentive to maximize the trading price of FHR Common Shares, notwithstanding that they will not be granted stock options until after the Effective Date of the Arrangement, FHR has approved the adoption of a deferred share unit plan (the “DSU Plan”). The DSU Plan is designed to align the interests of participants in the DSU Plan and the shareholders of FHR and to provide participants with an equity stake in FHR. The board has approved the grant to the executives, shortly after the Effective Date of the Arrangement, of deferred share units intended to replicate, to a specified maximum amount, the economic value to the executives of stock options granted based on an assumed trading price of the FHR Common Shares. The maximum number of deferred share units which will be issued to each of the Named Executive Officers is one-sixth the number of options specified above to be granted to that executive. The deferred share units will be redeemed on the third anniversary of their grant in most circumstances. On redemption, the holder of deferred share units will be entitled to be paid an amount per unit equal to the difference between the price of an FHR Common Share on the date of grant and the date of redemption. That redemption amount will be “grossed-up” for tax purposes to replicate the tax treatment of stock options. To the extent that the executive does not, at the time of redemption, meet FHR’s stock ownership guidelines, a certain portion of the payout amount under the DSU Plan will be required to be used by the executive to purchase FHR Common Shares.

### **Share Ownership Guidelines**

Following completion of the Arrangement, FHR’s board of directors intends to introduce share ownership guidelines to further align the interests of its executive officers with those of FHR shareholders. The guidelines will set a level of share ownership, expressed as a multiple of the officer’s base salary, that the officer is required to hold. The multiples will be approximately equal to two to three times base salary. FHR’s executives will be entitled to achieve the applicable minimum level of share ownership over a five-year period.

### **Severance Agreements**

Each of the Named Executive Officers is entitled to receive, pursuant to the terms of severance agreements between FHR and the Named Executive Officers, certain severance benefits if a change in control of FHR occurs and, within the three-year period following the change in control, the individual’s employment is terminated by FHR other than for cause, disability, retirement or death, or by the individual for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits. In such event, each Named Executive Officer will receive a lump sum severance payment equal to the base salary that such Named Executive Officer would have earned through the end of the applicable severance period (36 months for the Chief Executive Officer and 24 months for the other Named Executive Officers). Each severance agreement also provides that the applicable Named Executive Officer is entitled to certain benefits including payments under FHR’s bonus compensation plan and the continuation of certain insurance plan and other benefits for the duration of the severance period. Mr. Fatt has a severance agreement with CPL. After the completion of the Arrangement, Mr. Fatt’s severance agreement entitles him to certain benefits if he ceases to be employed by FHR for three years following the Arrangement.

### **Chief Executive Officer’s Compensation**

The pay-for-performance philosophy of FHR’s executive compensation program applies equally to the Chief Executive Officer. The compensation of the Chief Executive Officer will be approved by the Compensation Committee after careful assessment of his personal contribution to the performance of FHR. The assessment of the Chief Executive Officer’s performance will be based on a number of

quantitative and qualitative factors which include corporate financial results, strategic planning and initiatives, growth achievement, personal leadership and business acumen.

In 2000, Mr. Fatt's salary was Cdn\$525,000 and he was awarded a cash bonus under STIP of Cdn\$400,000 and Cdn\$1,862,375 under LTIP. Mr. Fatt was granted a total of 45,000 CPL Options under the CPL Option Plan in 2000.

### Summary Compensation

The following table identifies the individuals who will become the "Named Executive Officers" of FHR upon completion of the Arrangement and summarizes the compensation paid to them for the fiscal year ended December 31, 2000. The table sets out the total compensation awarded to, earned by or paid to, each of the Named Executive Officers for services rendered by that individual in all capacities to FHR and its subsidiaries.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation (Cdn\$)
		Salary (Cdn\$)	Bonus (Cdn\$) <sup>(b)</sup>	Other Annual Compensation (Cdn\$)	Awards	Payouts	
					Securities Under Options/SARs Granted (#)	LTIP Payouts (Cdn\$)	
W.R. Fatt Chief Executive Officer	2000	525,000	400,000		45,000 <sup>(c)</sup>	1,862,375	26,000 <sup>(d)</sup>
C.J. Cahill President and Chief Operating Officer	2000	400,000	243,600	1,762	0	0	0
J.M. Johnston Executive Vice President	2000	350,000	143,876	0	0	0	0
T.W. Storey <sup>(a)</sup> Executive Vice President, Business Development and Strategy	2000	N/A	N/A	N/A	N/A	N/A	N/A
M.J. Patava Executive Vice President, Chief Financial Officer	2000	270,000	143,876	0	0	0	0

(a) Mr. Storey was hired as Executive Vice President Business Development & Strategy on February 15, 2001 and accordingly received no remuneration from FHR in 2000.

(b) Amounts referred to in this table as "Bonus" were paid in the first quarter of 2001.

(c) As Executive Vice-President of CPL, Mr. Fatt received options under the CPL Stock Option Plan. Share Appreciation Rights ("SARs") are attached to 50% of the number of options set out in the table.

(d) Represents director's fees for services provided to PanCanadian Petroleum Limited.

## Long-Term Incentive Plan Awards

The following table describes the long-term incentive plan for the year ended December 31, 2000 for each of the Named Executive Officers.

### LONG-TERM INCENTIVE PLANS — AWARDS IN 2000

Name	Securities, Units or Other Rights (#)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Securities-Price-Based plans <sup>(a)</sup>		
			Threshold (Cdn\$)	Target (Cdn\$)	Maximum (Cdn\$)
W.R. Fatt	162 <sup>(b)</sup>	N/A	N/A	N/A	N/A
C.J. Cahill	0	January 1, 1998 — December 31, 2001	0	\$640,000	1,280,000
J.M. Johnston	0	January 1, 1998 — December 31, 2001	0	\$420,000	\$840,000
T.W. Storey	N/A	N/A	N/A	N/A	N/A
M.J. Patava	95 <sup>(b)</sup>	January 1, 1998 — December 31, 2001	0	\$378,000	\$756,000

(a) Participants in CPH&R's LTIP for the performance period indicated are eligible to earn a target award of a specified percentage of base salary (120% in the case of Mr. Johnston, 140% in the case of Mr. Patava and 160% in the case of Mr. Cahill) at the end of the performance period. The maximum award that may be earned as a percentage of base salary is 240% in the case of Mr. Johnston, 280% in the case of Mr. Patava and 320% in the case of Mr. Cahill. No award is payable if the Named Executive Officer meets, but does not exceed, the performance threshold. Estimated awards are based on 2000 salaries.

(b) Represents Share Equivalents ("S.E.s") credited on dividend payment dates in 2000 in respect of S.E.s previously credited under the CPL LTIP.

## Options and SARs

The following table shows options and SAR grants during the year ended December 31, 2000.

### OPTION/SAR GRANTS DURING 2000

Name	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year	Exercise or Base Price (Cdn\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (Cdn\$/Security)	Expiration Date
W.R. Fatt <sup>(a)</sup>	45,000	5.2%	30.75	30.75	February 7, 2010
C.J. Cahill	0	0	N/A	N/A	N/A
J.M. Johnston	0	0	N/A	N/A	N/A
T.W. Storey	N/A	N/A	N/A	N/A	N/A
M.J. Patava	0	0	N/A	N/A	N/A

(a) As Executive Vice President of CPL, Mr. Fatt received options under the CPL Stock Option Plan. SARs are attached to 50% of the number of options set out in the table.

The following table summarizes for each of the Named Executive Officers the aggregated option and SAR exercises during 2000.

**AGGREGATED OPTIONS AND SAR EXERCISES DURING 2000 AND  
YEAR-END OPTION AND SAR VALUES**

Name	Securities, Acquired on Exercise (#)	Aggregate Value Realized (Cdn\$)	Unexercised Options/SARs at December 31, 2000 (#) Exercisable/ Unexercisable	Value of Unexercised in-the-Money Options/SARs at December 31, 2000 (Cdn\$) Exercisable/ Unexercisable
W.R. Fatt	0	0	231,808/113,250	1,685,528/1,235,013
C.J. Cahill	8,084	119,845.30	5,000/55,000	14,250/671,750
J.M. Johnston	0	0	5,000/5,000	49,500/49,500
T.W. Storey	N/A	N/A	N/A	N/A
M.J. Patava	9,500	151,067.70	39,214/24,500	467,315/275,825

**Pension Plan**

As at December 31, 2000, CPL and CPH&R each maintained contributory defined benefit pension plans (“Basic Plan”) pursuant to which pensions are paid to eligible officers and employees of CPL and CPH&R at retirement. Under the Basic Plan, the amount of pension is based on the sum of (a) 1.3% of the average of the best five consecutive years or final 60 months of pensionable earnings (wages or salary) up to the year’s maximum pensionable earnings, multiplied by credited years of service, and (b) 2% of the average of the best five consecutive years or final 60 months of pensionable earnings in excess of the year’s maximum pensionable earnings multiplied by credited years of service. Credited years of service are limited to 35 years. The normal retirement age under the Basic Plan is 65. The pension is payable for the lifetime of the former member and continues to the surviving spouse at a rate of 50%. Under the Basic Plan, the pension is limited to the maximum under the *Income Tax Act* (Canada).

CPL and CPH&R also maintained a non-contributory supplemental pension plan (“Supplemental Plan”) in which executive officers and senior managers participate. The Supplemental Plan provides pension benefits in excess of the maximum provided under the Basic Plan. Short-Term Incentive Plan awards (i.e. annual bonus) are included in the calculation of pensionable earnings (the best five-year average of such awards is limited to the individual’s target award level at retirement). The Supplemental Plan provides additional benefits for executives who join the Basic Plan in mid-career.

The following table shows the aggregate annual retirement benefit payable under the Basic Plan and Supplemental Plan to participants in the specified compensation and years of service categories assuming retirement at age 65 based upon the defined benefit pension provisions in effect during 2000.

## PENSION PLAN TABLE

Remuneration (Cdn\$)	Years of Service				
	15 Cdn\$	20 Cdn\$	25 Cdn\$	30 Cdn\$	35 Cdn\$
250,000	123,132	139,515	151,417	159,916	166,028
350,000	178,262	200,348	216,394	227,852	236,028
450,000	234,454	261,836	281,730	295,935	306,028
550,000	288,589	322,057	346,372	363,732	376,028
650,000	349,599	386,515	413,335	432,485	446,028
750,000	404,792	447,387	478,333	500,429	516,028
850,000	459,985	508,259	543,332	568,374	586,028
950,000	515,178	569,131	608,330	636,318	656,028
1,050,000	570,371	630,004	673,329	704,263	726,028
1,150,000	625,564	690,876	738,327	772,207	796,028

The respective years of credited service for pension plan purposes as of December 31, 2000, and at normal retirement age for the Named Executive Officers are: Mr. Fatt, 13 years and 29 years; Mr. Cahill, 7.6 years and 25.6 years; Mr. Johnston, 2.3 years and 14.3 years; and Mr. Patava, 8 years and 26 years.

## STOCK OPTION PLANS

CPL's board of directors have approved two stock option plans — the Key Employee Stock Option Plan and the Directors' Stock Option Plan.

### **Key Employee Stock Option Plan**

The purpose of the Key Employee Stock Option Plan (the "Employee Option Plan") is to assist and encourage key officers, employees and consultants of FHR and its subsidiaries and certain persons employed at hotel properties managed by FHR or its subsidiaries ("Eligible Persons") to work towards and participate in the growth and development of FHR and its subsidiaries by granting stock options to such persons.

#### *Administration*

The Employee Option Plan will be administered by the board of directors (the "Board") or, if determined by the Board, by the Compensation Committee. The President and Chief Executive Officer of FHR will also have authority to grant options to Eligible Persons at the commencement of their employment or engagement, subject to ratification by the Board. The Board has the authority to determine which Eligible Persons are to be granted options and to grant options to those Eligible Persons. The Board also has the authority to interpret the Employee Option Plan and any option granted thereunder and to amend, suspend or terminate the Employee Option Plan or any option granted thereunder, provided that any required regulatory, shareholder or optionholder approvals are obtained.



### *Shares Reserved*

The maximum number of FHR Common Shares that may be reserved for issuance pursuant to options granted under the Employee Option Plan is 6,000,000, which is approximately 7.5% of the number of FHR Common Shares that will be outstanding on the Effective Date of the Arrangement. The maximum number of FHR Common Shares will be reduced as options are exercised and the FHR Common Shares so reserved are issued. Any FHR Common Shares subject to an option that expires or terminates without having been fully exercised may be made the subject of a further option.

The maximum number of FHR Common Shares that may be reserved for issuance to any one Eligible Person pursuant to options granted under the Employee Option Plan is 5% of the number of FHR Common Shares outstanding at the time of reservation.

### *Grant of Options, Exercise Price, Vesting and Expiry*

Options may be granted from time to time to Eligible Persons and an option agreement will be entered into at the time of grant. The exercise price of an option will not be less than the market price of the FHR Common Shares at the grant date, calculated as the closing price of a board lot of the FHR Common Shares on the TSE on the last trading day preceding the grant date (if the option is granted before the close of trading on the grant date) or on the grant date (if the option is granted after the close of trading on the grant date).

An option may be exercised by an optionholder from time to time on and after the second anniversary of the grant date as to 50% of the optioned shares or any part thereof and on and after the third anniversary of the grant date as to the remaining 50% of the optioned shares or any part thereof. The Board has the right to determine at the time of grant that a particular option will be exercisable in whole or in part on different dates or for reasons other than the passage of time (including the achievement by FHR or the optionholder of specified performance or other criteria). In addition, the Board may determine after the grant date that a particular option will be exercisable in whole or in part on earlier dates for any reason. Options automatically become exercisable on a change of control.

The expiry date of an option will be ten years after the grant date, subject to the right of the Board to determine at the time of grant that a particular option will have a shorter term. An option will expire before its normal expiry date if: (a) an optionholder resigns from his or her employment, in which case the option will expire in 60 days; (b) an optionholder's employment is terminated by FHR without cause, in which case the option will expire in six months; (c) an optionholder's employment is terminated by FHR for cause, including where an optionholder resigns after being requested to do so by FHR as an alternative to being terminated for cause, in which case the option will expire immediately; (d) an optionholder's contract as a consultant is frustrated, in which case the option will expire in six months; (e) an optionholder's employment ceases due to permanent disability, in which case the option will expire in six months; (f) an optionholder retires upon attaining the retirement age established by FHR from time to time, in which case the option will expire in 12 months; or (g) an optionholder dies, in which case the option will expire in 12 months, subject in each case to the right of the Board to set a shorter or longer period for exercise (not later than the normal expiry date) in certain circumstances.

### *Share Appreciation Rights*

SARs may be granted to Eligible Persons at the same time as the grant of an option. SARs, if granted, will have the following terms (or such other terms as are consistent with the related options): (a) one SAR will be granted for every two optioned shares; (b) the reference price for an SAR will be the same as the exercise price of the related option; (c) SARs may be exercised from time to time by an optionholder on and after the third anniversary of the grant date; (d) exercise of SARs will result in a reduction in the number of optioned shares on the basis of one optioned share for each exercised SAR; (e) exercise of an option will result in a reduction in the number of SARs on the basis of one SAR for each optioned share

purchased in excess of 50% of the number of optioned shares; and (f) the expiry date of an SAR will be ten years after the grant date. FHR will pay to the optionholder, for each exercised SAR, an amount equal to the closing price of a board lot of the FHR Common Shares on the TSE on the day of exercise, less the exercise price. Other provisions of the Employee Option Plan with respect to options apply to SARs, where appropriate and with the necessary changes.

#### *Limited Assignment, No Rights as a Shareholder and Adjustments*

An option may not be assigned except in certain circumstances, including death. An optionholder will only have rights as a shareholder of FHR with respect to FHR Common Shares that the optionholder has acquired through exercise of an option. Nothing in the Employee Option Plan or in any option agreement will confer on any optionholder any right to remain as an officer, employee or consultant of FHR or any subsidiary or constitute a consultant as an employee of FHR.

Adjustments will be made to the exercise price of an option, the number of FHR Common Shares delivered to an optionholder upon exercise of an option and/or the maximum number of FHR Common Shares that may at any time be reserved for issuance pursuant to options granted under the Employee Option Plan in certain circumstances, such as: (a) a subdivision or consolidation of the FHR Common Shares or the issue of a stock dividend to holders of the FHR Common Shares; (b) a capital reorganization, reclassification or change of the FHR Common Shares, a consolidation, amalgamation, arrangement or other form of business combination of FHR with another person or company or a sale, lease or exchange of all or substantially all of the property of FHR; or (c) the distribution by FHR to holders of the FHR Common Shares of shares of any class (other than FHR Common Shares), rights, options or warrants, evidences of indebtedness or cash (excluding a cash dividend paid in the ordinary course), securities or other property or assets.

#### *Options Held by CPL Optionholders*

On the Effective Date of the Arrangement, outstanding CPL Stock Options under the CPL Stock Option Plan will be replaced by separate options to acquire common shares of the five companies (including FHR) resulting from the Arrangement and the CPL Stock Options will become direct but separate obligations of those five companies. This is consistent with the treatment of CPL Common Shareholders under the Arrangement. Accompanying SARs will be replaced in a like manner.

The replacement options will be exercisable as units for the first ten trading days on which the FHR Common Shares trade after the Effective Date of the Arrangement and separately thereafter (for example, an FHR option may be exercised at a different time than an option in the other companies), the expiry dates of the options will be unchanged, the number of replacement options and exercise prices will be adjusted so that there is no change to the aggregate exercise price and all of the options will be vested (because the Arrangement will be a change in control under the CPL Stock Option Plan). The exercise prices for the replacement options will be established based on the weighted average trading price of the common shares of the relevant company (including FHR) resulting from the Arrangement on the TSE for the first ten trading days on which the FHR Common Shares trade after the Effective Date of the Arrangement. The purpose of this is to ensure, to the extent possible, that the exercise prices are based on “settled” market prices.

The replacement options that are options of FHR will be subject to the provisions of the Employee Option Plan, with the necessary changes. For example, if the optionholder is not an Eligible Person under the Employee Option Plan (i.e. not an officer or employee of or a consultant to FHR), then the early expiry provisions of the replacement options will become effective when the optionholder’s employment with another former subsidiary of CPL terminates.

## **Directors' Stock Option Plan**

The purpose of the Directors' Stock Option Plan (the "Directors' Option Plan") is to promote a proprietary interest in FHR among its non-employee directors, align the interests of the non-employee directors more closely to those of other shareholders and assist FHR in retaining and attracting individuals with the experience and ability to act as directors of FHR.

### *Administration*

The Directors' Option Plan will be administered by the Corporate Governance and Nominating Committee of FHR (the "Governance Committee"). The Governance Committee has the authority to interpret the Directors' Option Plan and any option granted thereunder and to amend, suspend or terminate the Directors' Option Plan or any option granted thereunder, provided that any required regulatory, shareholder or optionholder approvals are obtained. However, the selection of the non-employee directors to whom options are to be granted, the grant dates, the number of options to be granted, the exercise price of an option, the time during which an option may be exercised and the expiry date of an option will be as provided in the Directors' Option Plan, and the Governance Committee will have no discretion as to such matters.

### *Shares Reserved*

The maximum number of FHR Common Shares that may be reserved for issuance pursuant to options granted under the Directors' Option Plan is 600,000, which is approximately 0.75% of the number of FHR Common Shares that will be outstanding on the Effective Date of the Arrangement. The maximum number of FHR Common Shares will be reduced as options are exercised and the FHR Common Shares so reserved are issued. Any FHR Common Shares subject to an option that expires or terminates without having been fully exercised may be made the subject of a further option.

### *Grant of Options, Exercise Price, Vesting and Expiry*

An initial grant of 8,000 options will be made to each non-employee director. The grant date for such options will be: (a) for each person who is a non-employee director on the Effective Date of the Arrangement, the third trading day on the TSE following such date; and (b) for each person who subsequently becomes a non-employee director, the third trading day on the TSE following the date on which such person is first elected or appointed. An annual grant of 4,000 options will also be made to each non-employee director, on the third trading day on the TSE following each annual meeting of shareholders of FHR at which directors are elected. An option agreement will be entered into at the time of grant.

The exercise price of an option will be the market price of the FHR Common Shares at the grant date, calculated as the closing price of a board lot of the FHR Common Shares on the TSE on the grant date.

An option may be exercised by an optionholder from time to time on and after the grant date, as to 100% of the optioned shares or any part thereof.

The expiry date of an option will be ten years after the grant date. An option will expire before its normal expiry date if an optionholder ceases to be a member of the Board (whether as a result of the resignation of the optionholder from the Board or the optionholder not standing for re-election or not being re-elected as a member of the Board by the shareholders of FHR at a meeting, or for any other reason) or an optionholder dies, in which case the option will expire in 12 months.

### *Limited Assignment, Participation Voluntary, No Rights as a Shareholder and Adjustments*

An option may not be assigned except in certain circumstances, including death. Participation of a non-employee director in the Directors' Option Plan is entirely voluntary. An optionholder will only have rights as a shareholder of FHR with respect to FHR Common Shares that the optionholder has acquired through exercise of an option. Nothing in the Directors' Option Plan or in any option agreement will confer on any optionholder any right to remain as a director of FHR.

Adjustments will be made to the exercise price of an option, the number of FHR Common Shares delivered to an optionholder upon exercise of an option and/or the maximum number of FHR Common Shares that may at any time be reserved for issuance pursuant to options granted under the Directors' Option Plan, in the same manner as described above with respect to the Employee Option Plan.

### **Shareholder Approval**

The TSE requires that the Employee Option Plan and the Directors' Option Plan be approved by shareholders. That approval will be sought at the CPL Meeting. A single resolution will be voted on to approve the Employee Option Plan, the Directors' Option Plan and the similar option plans adopted by each of the other subsidiaries of CPL whose ownership is being distributed to CPL Common Shareholders under the Arrangement. The vote will be separate from the vote to approve the Arrangement and the required level of approval will be a simple majority of the votes cast in person or by proxy.

### **STOCK EXCHANGE LISTINGS**

There is currently no market for FHR Common Shares or FHR Investments Preferred Shares. The TSE has conditionally approved the listing of FHR Common Shares, FHR Preferred Shares and FHR Investments Preferred Shares, to be issued pursuant to the Arrangement, subject to the fulfilment of all requirements of such exchange. The NYSE has authorized the listing of FHR Common Shares to be issued pursuant to the Arrangement subject to official notice of issuance.

The prices at which FHR Common Shares, FHR Preferred Shares and FHR Investments Preferred Shares may trade cannot be predicted. The trading price will be determined by the market place and may be influenced by many factors including, among others, the depth and liquidity of the market for these securities, investor perception of the hotel and resort industry, FHR's earnings, financial condition and dividend policy as well as general economic and market conditions. In addition, during the period immediately after the Effective Date of the Arrangement when FHR Common Shares, FHR Preferred Shares and FHR Investments Preferred Shares are being distributed, an orderly trading market may not have developed, with the result that prices in this period may fluctuate more than would be the case if an orderly trading market existed.

### **ELIGIBILITY FOR INVESTMENT**

Eligibility of the FHR Common Shares for investment by purchasers to whom any of the following statutes apply is, in certain cases, governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and, where applicable, the regulations thereunder) and is subject to the prudent investment standards and general investment provisions provided therein:

*Insurance Companies Act* (Canada)  
*Trust and Loan Companies Act* (Canada)  
*Pension Benefits Standards Act, 1985* (Canada)  
*Loan and Trust Corporations Act* (Ontario)  
*Pension Benefits Act* (Ontario)  
*Trustee Act* (Ontario)  
*Supplemental Pension Plans Act* (Quebec)  
*An Act respecting insurance* (Quebec) for insurers other than a guarantee fund corporation

*An Act respecting trust companies and savings companies* (Quebec) for a trust company investing its own funds and deposits it receives or a savings company, as defined therein, which invests its funds  
*Loan and Trust Corporations Act* (Alberta)  
*Insurance Act* (Alberta)  
*Financial Institutions Act* (British Columbia)  
*The Trustee Act* (Manitoba)  
*The Insurance Act* (Manitoba)

Assuming the FHR Common Shares are and continue to be listed on the TSE and/or the NYSE, such shares will be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") for a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan or a deferred profit sharing plan. Such shares also should not be foreign property for purposes of Part XI of the Tax Act when issued pursuant to the Plan of Arrangement.

## **DIVIDEND POLICY**

The payment of dividends by FHR will be dependent upon the financial requirements of FHR to fund future growth, the financial condition of FHR and other factors the Board of FHR may consider appropriate in the circumstances. Decisions on the payment of dividends are expected to be made on a quarterly basis by the Board. There can be no assurance, however, that a dividend will be declared in any given year. FHR intends to pay a dividend of Cdn\$0.05 per FHR Common Share commencing in 2002. See “Risk Factors”.

## **SHAREHOLDER RIGHTS PLAN**

On July 30, 2001, CPL approved a shareholder rights plan (the “Rights Plan”) which will take effect on the Effective Date of the Plan of Arrangement.

The primary objective of the Rights Plan is to provide the Board sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made for FHR and to provide every shareholder an equal opportunity to participate in such a bid. The Rights Plan encourages a potential acquiror to proceed either by way of a Permitted Bid (as defined in the Rights Plan), which requires the take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board.

On the Effective Date, one right (a “Right”) will be issued and attach to each FHR Common Share and attaches to each FHR Common Share subsequently issued. The Rights will separate from the FHR Common Shares and will be exercisable ten trading days after a person has acquired, or commenced a take-over bid to acquire, 10% or more of the FHR Common Shares, other than by an acquisition pursuant to a Permitted Bid or an acquisition pursuant to a distribution by prospectus, private placement or securities exchange take-over bid of securities of FHR that have not been previously distributed (a “Treasury Issue”). Where a person acquires 10% or more of the FHR Common Shares otherwise than pursuant to a Permitted Bid or a Treasury Issue, shareholders other than such acquirer may exercise the Rights to acquire FHR Common Shares at a 50% discount to the then current market price. There is no “grandfathering” provision in the Rights Plan so if a shareholder holds 10% or more of the outstanding FHR Common Shares on the Effective Date, including as a consequence of the settlement of “when issued” trades, the Rights Plan will be triggered.

The requirements for a Permitted Bid include the following:

- (i) the take-over bid must be made by way of a take-over bid circular;
- (ii) the take-over bid must be made to all shareholders of FHR;
- (iii) the take-over bid must be outstanding for a minimum period of 60 days and FHR Common Shares tendered pursuant to the take-over bid may not be taken up prior to the expiry of the 60-day period and only if at such time more than 50% of the FHR Common Shares held by shareholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons (the “Independent Shareholders”), have been tendered to the take-over bid and not withdrawn; and
- (iv) if more than 50% of the FHR Common Shares held by Independent Shareholders are tendered to the take-over bid within the 60-day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of FHR Common Shares for not less than ten Business Days from the date of such public announcement.

See Part II of the Circular, “The Companies After The Arrangement — General — Shareholder Rights Plan” for a complete description of the Rights Plan.

## MATERIAL CONTRACTS

Except for contracts entered into by CPH&R in the ordinary course of business, the only material contract entered into in the two years preceding the date of this document which can reasonably be regarded as being presently material to FHR is the Arrangement Agreement. A copy of the Arrangement Agreement is included as Exhibit E to the Circular.

## OWNERSHIP INTERESTS OF FAIRMONT HOTELS & RESORTS INC.

After the completion of the Arrangement, FHR will have a beneficial interest in the following entities, which could be viewed as being material to FHR:

<u>Entity and Governing Jurisdiction</u>	<u>FHR Beneficial Interest</u>
Canadian Pacific Hotels & Resorts Inc. (Canada) . . . . .	100%
Canadian Pacific Properties Inc. (Canada) . . . . .	100%
Fairmont Hotels Inc. (Canada) . . . . .	67%
Delta Hotels Limited (Ontario) . . . . .	100%
Canadian Pacific Hotels Real Estate Corporation (Canada) . . . . .	100%
Legacy Hotels Real Estate Investment Trust (Alberta) . . . . .	34%
Kea Lani Limited Partnership (Hawaii) . . . . .	100%
Scottsdale Princess Partnership (Arizona) . . . . .	100%
Chateau Whistler Resort Partnership (British Columbia) . . . . .	100%
Copley Plaza 2001 LLC . . . . .	50%
Chateau M.T. Inc. (Quebec) . . . . .	19.9%
Manoir Richelieu Limited Partnership (Quebec) . . . . .	25%
Impulsora de Revolcadero S.A. de C.V. (Mexico) . . . . .	100%
Organización Ideal, S.A. de C.V. (Mexico) . . . . .	100%
CPH International Financing Rt. (Hungary) . . . . .	100%
Westend Properties Limited (Bermuda) . . . . .	100%
Hamilton Properties Limited (Bermuda) . . . . .	100%
CP Hotels (Barbados) Inc. (Barbados) . . . . .	100%
Conference Plaza Hotel Limited Partnership (British Columbia) . . . . .	34.8%

## LEGAL PROCEEDINGS

FHR is, from time to time, involved in litigation incidental to the conduct of its business. FHR believes that it has made adequate provisions in its financial statements with respect to such litigation.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

CPH&R owns all of the outstanding common shares of Canadian Pacific Hotels Management Corporation (“CPHMC”), which earns hotel management and advisory fees from Legacy Hotels Corporation (“LHC”), a wholly-owned subsidiary of Legacy, and from Legacy itself under management agreements and an advisory agreement with Legacy. In addition, Fairmont and Delta earn hotel management fees from LHC and Legacy EF Inc. (“Legacy EF”), a subsidiary of Legacy. Messrs. William R. Fatt, Chris J. Cahill and M. Jerry Patava are Trustees and officers of Legacy, and Messrs. Terence P. Badour and Neil J. Labatte are officers of Legacy. Each of Messrs. Fatt, Cahill, Patava and Badour is also a director or officer of FHR, CPH&R, CPHREC, Fairmont, Delta, CPHMC, Legacy EF and LHC. Mr. Labatte is a director or officer of FHR, CPH&R, CPHREC, Fairmont and LHC. Mr. John M. Johnston is a director or officer of Fairmont, CPH&R and Delta.

## AUDITORS, TRANSFER AGENT AND REGISTRAR

FHR’s auditors are PricewaterhouseCoopers LLP, Chartered Accountants, Suite 3000, Royal Trust Tower, 77 King Street West, Toronto, Ontario.

FHR’s transfer agent and registrar is Computershare Trust Company of Canada at its offices in Toronto, Montreal, Calgary and Computershare Trust Company of New York.

## AUDITORS' REPORT

**To the Directors of  
Canadian Pacific Hotels & Resorts Inc.**

We have audited the consolidated balance sheets of **Canadian Pacific Hotels & Resorts Inc.** as at December 31, 2000 and 1999 and the consolidated statements of income, retained earnings (deficit) and cash flows for each of the three years in the period ended December 31, 2000. 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 audits.

We conducted our audits 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 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario  
February 13, 2001, except for note 23,  
which is as of July 23, 2001

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants

## COMMENTS BY AUDITOR ON CANADIAN — UNITED STATES REPORTING DIFFERENCES

### To the Directors of Canadian Pacific Hotels & Resorts Inc.

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Company's financial statements, such as the changes described in notes 1 and 2 to the consolidated financial statements. Our report to the directors dated February 13, 2001 (except for note 23, which is as of July 23, 2001), is expressed in accordance with the Canadian reporting standards which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

Toronto, Ontario  
February 13, 2001, except for note 23,  
which is as of July 23, 2001

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants



**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**CONSOLIDATED BALANCE SHEET**

	<u>June 30,</u> <u>2001</u>	<u>December 31,</u>	
		<u>2000</u>	<u>1999</u>
	(unaudited)	(in thousands of U.S. dollars)	
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents . . . . .	\$ 8,963	\$ 41,355	\$ 6,177
Deposits with affiliated company (note 19) . . . . .	6,298	5,074	3,487
Accounts receivable . . . . .	64,196	54,305	42,810
Materials and supplies . . . . .	11,110	10,538	10,163
Prepaid expenses . . . . .	11,521	5,207	4,243
Owing by affiliated companies (note 19) . . . . .	40,447	33,487	14,606
Income taxes recoverable . . . . .	—	—	12,294
Future income taxes (note 15) . . . . .	22,235	22,235	3,592
	<u>164,770</u>	<u>172,201</u>	<u>97,372</u>
<b>Investments in hotel partnerships and corporations (note 4) . . .</b>	37,772	52,083	58,954
<b>Investment in Legacy Hotels Real Estate Investment Trust</b>			
(note 5) . . . . .	59,252	86,609	64,318
<b>Capital assets (note 7) . . . . .</b>	1,242,791	999,932	814,326
<b>Other assets and deferred charges (note 8) . . . . .</b>	254,832	261,516	213,688
	<u>\$1,759,417</u>	<u>\$1,572,341</u>	<u>\$1,248,658</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank loans . . . . .	\$ 20,030	\$ 16,915	\$ —
Accounts payable and accrued liabilities . . . . .	80,836	82,911	69,433
Owing to affiliated companies (note 19) . . . . .	3,603	3,143	3,066
Income taxes payable . . . . .	—	10,774	2,113
Current portion of long-term debt (note 9) . . . . .	33,603	1,808	1,612
	<u>138,072</u>	<u>115,551</u>	<u>76,224</u>
<b>Other liabilities . . . . .</b>	36,872	33,139	31,975
<b>Long-term debt (note 9) . . . . .</b>	751,425	636,782	485,168
<b>Future income taxes (note 15) . . . . .</b>	166,513	146,270	125,443
<b>Non-controlling interest . . . . .</b>	49,317	47,484	43,240
	<u>1,142,199</u>	<u>979,226</u>	<u>762,050</u>
<b>Shareholder's Equity</b>			
<b>Share capital (note 10) . . . . .</b>	592,354	592,354	592,354
<b>Contributed surplus (note 11) . . . . .</b>	4,359	4,359	—
<b>Foreign currency translation adjustments . . . . .</b>	14,551	4,050	(12,807)
<b>Retained earnings (deficit) . . . . .</b>	5,954	(7,648)	(92,939)
	<u>617,218</u>	<u>593,115</u>	<u>486,608</u>
	<u>\$1,759,417</u>	<u>\$1,572,341</u>	<u>\$1,248,658</u>
<b>Commitments and contingencies (note 18)</b>			

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**CONSOLIDATED STATEMENT OF INCOME**

	Six months ended June 30,		Year ended December 31,		
	2001 (unaudited)	2000 (unaudited)	2000	1999	1998
	(in thousands of U.S. dollars)				
<b>Revenues</b>					
Hotel ownership operations . . . . .	\$261,912	\$222,620	\$464,694	\$ 439,708	\$ 303,612
Management operations . . . . .	17,448	17,167	41,846	29,119	20,449
Income from investments and other (note 13) . . . . .	7,624	10,339	24,333	21,948	15,900
	<u>286,984</u>	<u>250,126</u>	<u>530,873</u>	<u>490,775</u>	<u>339,961</u>
<b>Expenses</b>					
Hotel ownership operations . . . . .	185,601	157,509	320,804	311,892	218,892
Management operations . . . . .	7,156	8,067	14,684	11,620	8,034
Amortization . . . . .	24,986	18,591	39,760	32,019	22,446
	<u>217,743</u>	<u>184,167</u>	<u>375,248</u>	<u>355,531</u>	<u>249,372</u>
<b>Operating income</b> . . . . .	69,241	65,959	155,625	135,244	90,589
<b>Other (income) and expenses</b> (note 3) . . . .	7,713	—	—	—	—
<b>Interest expense</b> — net (note 14) . . . . .	21,966	15,368	31,246	30,736	21,217
	<u>39,562</u>	<u>50,591</u>	<u>124,379</u>	<u>104,508</u>	<u>69,372</u>
<b>Income before income tax expense, non-controlling interest and goodwill charges</b> . . . . .					
	39,562	50,591	124,379	104,508	69,372
<b>Income tax expense (recovery)</b> (note 15)					
Current . . . . .	9,068	8,237	26,047	13,285	10,461
Future . . . . .	(9,895)	3,291	6,887	19,766	8,155
	<u>(827)</u>	<u>11,528</u>	<u>32,934</u>	<u>33,051</u>	<u>18,616</u>
<b>Non-controlling interest share of income of subsidiary</b> . . . . .					
	1,834	2,054	4,243	565	—
<b>Income before goodwill charges</b> . . . . .	38,555	37,009	87,202	70,892	50,756
<b>Goodwill charges</b> . . . . .	1,517	1,133	2,419	1,994	793
<b>Income taxes thereon</b> . . . . .	(284)	(177)	(508)	(373)	(166)
<b>Net income for the period</b> . . . . .	<u>\$ 37,322</u>	<u>\$ 36,053</u>	<u>\$ 85,291</u>	<u>\$ 69,271</u>	<u>\$ 50,129</u>
<b>Retained earnings (deficit) — beginning of period</b>					
As previously reported . . . . .	\$ (7,648)	\$ (92,939)	\$ (92,939)	\$ (155,848)	\$ (173,185)
Effect of change in accounting for amortization (note 2) . . . . .	—	—	—	—	(29,143)
Effect of change in accounting for income taxes (note 15) . . . . .	—	—	—	—	10,431
<b>As restated</b> . . . . .	<u>(7,648)</u>	<u>(92,939)</u>	<u>(92,939)</u>	<u>(155,848)</u>	<u>(191,897)</u>
<b>Net income</b> . . . . .	37,322	36,053	85,291	69,271	50,129
	<u>29,674</u>	<u>(56,886)</u>	<u>(7,648)</u>	<u>(86,577)</u>	<u>(141,768)</u>
<b>Dividends on common shares</b> . . . . .	<u>(23,720)</u>	<u>—</u>	<u>—</u>	<u>(6,362)</u>	<u>(14,080)</u>
<b>Retained earnings (deficit) — end of period</b> . . . . .	<u>\$ 5,954</u>	<u>\$ (56,886)</u>	<u>\$ (7,648)</u>	<u>\$ (92,939)</u>	<u>\$ (155,848)</u>

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Six months ended June 30,		Year ended December 31,		
	2001	2000	2000	1999	1998
	(unaudited)	(unaudited)	(in thousands of U.S. dollars)		
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Net income for the period . . . . .	\$ 37,322	\$ 36,053	\$ 85,291	\$ 69,271	\$ 50,129
Items not affecting cash					
Amortization and goodwill charges . . . . .	26,503	19,724	42,179	34,013	23,239
Income from investments and other . . . . .	(7,624)	(10,339)	(24,333)	(21,948)	(15,900)
Future income taxes . . . . .	(9,895)	3,291	6,887	19,766	8,155
Foreign currency (gain) loss . . . . .	2,131	(246)	812	70	—
(Gain) loss on sale of capital assets and investments . . . . .	(31,079)	—	11	(1,191)	36
Distributions from investments . . . . .	5,554	6,138	18,053	13,594	12,254
Non-controlling interest share of income of subsidiary . . . . .	1,834	2,054	4,243	565	—
Write-off of other assets . . . . .	38,792	—	—	—	—
Other . . . . .	(3,367)	(1,450)	(3,352)	350	3,115
Purchase of tax loss (note 15) . . . . .	—	—	(22,235)	(3,592)	(12,748)
Changes in non-cash working capital items (note 20) . . . . .	(39,392)	(25,206)	(893)	(28,961)	(17,074)
	<u>20,779</u>	<u>30,019</u>	<u>106,663</u>	<u>81,937</u>	<u>51,206</u>
<b>Investing activities</b>					
Investment in hotel partnerships and corporations . . . . .	(1,662)	(1,888)	(7,273)	(15,975)	(10,787)
Proceeds from sale of (investment in) units of Legacy Hotels					
Real Estate Investment Trust (note 5) . . . . .	53,462	—	(17,449)	(553)	(1,559)
Additions to capital assets . . . . .	(53,297)	(33,913)	(86,837)	(80,830)	(33,610)
Proceeds from sale of capital assets . . . . .	115,040	—	124	42,236	10,177
Proceeds from note receivable . . . . .	—	—	—	—	80,375
Additions to other assets . . . . .	(17,545)	(6,719)	(42,840)	(3,331)	(789)
Acquisitions (note 6) . . . . .	(236,036)	—	(90,404)	(12,756)	(581,281)
Other . . . . .	—	—	—	—	2,603
	<u>(140,038)</u>	<u>(42,520)</u>	<u>(244,679)</u>	<u>(71,209)</u>	<u>(534,871)</u>
<b>Financing activities</b>					
Increase in bank loans . . . . .	20,030	—	16,915	—	—
Repayment of bank loans . . . . .	(16,915)	—	—	—	—
Issuance (repayment) of note to Legacy Hotels Real Estate					
Investment Trust . . . . .	—	—	—	(39,863)	39,863
Issuance of long-term debt . . . . .	130,749	27,080	224,352	28,332	261,580
Repayment of long-term debt . . . . .	(23,544)	(7,383)	(74,135)	(1,512)	(69,278)
Other liabilities . . . . .	1,070	(742)	2,945	1,834	4,703
Issuance of common shares . . . . .	—	—	—	1,977	276,734
Dividends paid . . . . .	(23,720)	—	—	(6,362)	(14,080)
Capital contributed by parent . . . . .	—	—	4,359	—	—
	<u>87,670</u>	<u>18,955</u>	<u>174,436</u>	<u>(15,594)</u>	<u>499,522</u>
<b>Effect of exchange rate changes on cash balance . . . . .</b>	<u>421</u>	<u>11</u>	<u>345</u>	<u>(1,392)</u>	<u>967</u>
<b>Increase (decrease) in cash balance during the period . . . . .</b>	<u>(31,168)</u>	<u>6,465</u>	<u>36,765</u>	<u>(6,258)</u>	<u>16,824</u>
<b>Cash balance — beginning of period . . . . .</b>	<u>46,429</u>	<u>9,665</u>	<u>9,664</u>	<u>15,922</u>	<u>(902)</u>
<b>Cash balance — end of period . . . . .</b>	<u>\$ 15,261</u>	<u>\$ 16,130</u>	<u>\$ 46,429</u>	<u>\$ 9,664</u>	<u>\$ 15,922</u>
<b>Represented by</b>					
Cash and cash equivalents . . . . .	\$ 8,963	\$ 10,434	\$ 41,355	\$ 6,177	\$ 13,015
Deposits with affiliated company . . . . .	6,298	5,696	5,074	3,487	2,907
	<u>\$ 15,261</u>	<u>\$ 16,130</u>	<u>\$ 46,429</u>	<u>\$ 9,664</u>	<u>\$ 15,922</u>

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of U.S. dollars)**

The following notes to financial statements apply to the years ended December 31, 2000, 1999 and 1998 except notes 1, 2, 3, 5, 6, 21, 23 and 24 which include unaudited interim information for the six months ended June 30, 2001 and 2000 to comply with the disclosure requirements of CICA section 1751 *Interim Financial Statements*.

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

At June 30, 2001, the Company had 77 hotels and resorts under management, of which the Company had an ownership interest 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.

On February 13, 2001, Canadian Pacific Limited (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. These consolidated financial statements represent the historical operations of CPH&R and do not include the effects of the proposed reorganization.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Principles of consolidation**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the consolidated accounts of CPH&R, Canadian Pacific Hotels Management Company, 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 investments 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.

### **Change in reporting currency**

The Company's consolidated financial statements have historically been expressed in Canadian dollars. The U.S. dollar has been adopted as the Company's reporting currency effective June 30, 2001. Comparative financial information has been restated in U.S. dollars using the translation of convenience method. Under this method, all historical financial statements have been converted from Canadian to U.S. dollars at the exchange rate in effect at June 30, 2001 of 0.6589.

### **Foreign currency translation**

Foreign currency assets and liabilities of the Company's operations are translated at the rate of exchange in effect at the balance sheet dates for monetary items and at historical exchange rates for

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands of U.S. dollars)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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-sustaining subsidiaries, where the functional currency is other than the U.S. dollar, are translated using the period-end exchange rate for assets and liabilities and the average exchange rates in effect for the period for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under shareholder's equity as foreign currency translation adjustments.

**Revenue recognition**

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

**Materials and supplies**

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

**Capital assets**

Property and equipment 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. Interest is capitalized, based on the borrowing rate of debt related to the project or the Company's average cost of borrowing.

Computer system development costs for internal use software are capitalized to the extent the project is expected to be of continuing benefit to the Company.

The cost of the initial complement of the circulating operating equipment, such as linens, china, glassware and silverware, is capitalized and then amortized on a straight-line basis over three years. Replacements are expensed when placed in service.

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

Buildings . . . . .	40 years straight-line
Building equipment . . . . .	17-25 years straight-line
Furniture and equipment . . . . .	5-17 years straight-line
Computer system software . . . . .	2-7 years straight-line
Vehicles . . . . .	3-5 years straight-line
Leasehold improvements . . . . .	over the term of the leases

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands of U.S. dollars)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The unamortized portions of capital assets are reviewed regularly and compared with their net recoverable amount. Based on management's projected undiscounted future cash flows from the related operations, any impairment in value is recorded as a charge to income.

**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 the 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 are written down to net recoverable amount 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 costs 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 on a straight-line basis over the estimated periods of benefit of up to 40 years. The Company evaluates the carrying value of goodwill for possible impairment on an annual basis. Goodwill is written down to net recoverable amount 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 expensed as incurred.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands of U.S. dollars)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**Employee future benefits**

Effective January 1, 2000, the Company adopted the new recommendations for accounting for employee future benefits. The costs of pensions and other post-retirement benefits (primarily, health care and life insurance) are actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected 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.

For defined benefit plans, pension expense includes the cost of pension benefits earned during the current year, the interest cost on pension obligations, the return on pension plan assets, settlement gains, the amortization of the transitional asset, the amortization of adjustments arising from pension plan amendments, and the amortization of the excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the market related value of plan assets. The amortization period covers the expected average remaining service lives of employees covered by the various plans.

For defined contribution plans, pension costs generally equal plan contributions made during the current year.

**Income taxes**

Effective January 1, 2000, the Company adopted the liability method for providing for income taxes retroactively with restatement of prior periods. 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 on future tax assets and liabilities is recognized in income in the period that the 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.

**Unaudited interim financial information**

The financial information as at June 30, 2001 and for the six months ended June 30, 2001 and 2000 is unaudited. The accounting policies used to prepare the interim financial statements are the same as those used to prepare the annual financial statements. The disclosures for the interim period do not include all the disclosures required for annual financial statements but do reflect all adjustments

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands of U.S. dollars)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

which are, in the opinion of management, required for fair presentation for the interim period presented.

**2. CHANGE IN ACCOUNTING POLICIES**

**Amortization of buildings**

During 2001, the Company changed its accounting policy to amortize buildings on a straight-line basis. Previously, buildings were amortized using the sinking fund method. This new accounting policy has been applied retroactively to the comparative figures, and includes applying the policy to the Company's equity investment in Legacy.

As a result of this change in accounting policy, amortization expense for the year ended December 31, 2000 has increased by \$9,510 (1999 — \$9,022; 1998 — \$6,166). In addition, income from investments and other for the year ended December 31, 2000 decreased by \$1,521 (1999 — \$1,471; 1998 — \$1,332). These changes resulted in decreased future income tax expense of \$4,086 (1999 — \$3,875; 1998 — \$3,048)

As at December 31, 2000, the impact on capital assets and Investment in Legacy was a reduction of \$57,060 (1999 — \$43,772) and \$17,182 (1999 — \$15,662) respectively. As at December 31, 2000, future income taxes decreased by \$24,094 (1999 — \$18,498).

**Pre-opening expenses**

During 2001, the Company also changed its accounting policy with respect to pre-opening expenses. Previously, these expenditures were being deferred and now they are being expensed as incurred. This new accounting policy has been applied retroactively to comparative figures. As a result of this change in accounting policy, amortization expense has increased \$1,533 for the year ended December 31, 2000 (1999 — \$982; 1998 — \$nil) and interest expense has increased \$2,244 for the year ended December 31, 2000 (1999 — \$226; 1998 — \$nil) and future income tax expense has decreased \$1,510 for the year ended December 31, 2000 (1999 — \$483; 1998 — \$nil).

**Incentive management fees**

Commencing January 1, 2001, the Company adopted, retroactively with restatement of prior years, the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to revenue recognition for interim periods. Previously, incentive management fees were accrued throughout the year, based on the estimated results. The new recommendations now require incentive fees be recorded only when thresholds have been achieved. The result was to decrease management operations revenues by \$3,183 for the period ended June 30, 2000.



**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**3. OTHER INCOME AND EXPENSES**

Other (income) and expenses for the six months ended June 30, 2001 includes the following:

Brand technology development costs . . . . .	\$ 22,412
Write-off of deferred development charges, leasehold improvements and equity investment . . . . .	7,185
Write-off of management contracts . . . . .	5,823
Other . . . . .	<u>3,372</u>
	38,792
Gain on sale of Legacy units (note 5) . . . . .	<u>(31,079)</u>
	<u>\$ 7,713</u>

**4. INVESTMENTS IN HOTEL PARTNERSHIPS AND CORPORATIONS**

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Accounted for on the equity basis		
The Fairmont Chateau Whistler (note 6) . . . . .	\$ —	\$15,811
The Fairmont Hotel Newfoundland . . . . .	1,323	1,260
Manoir Richelieu L.P. . . . .	26,247	25,885
Delta Vancouver Suites . . . . .	2,714	2,841
Pemberton Princess Hotels Limited — Barbados (note 6) . . . . .	<u>13,457</u>	<u>11,180</u>
	43,741	56,977
Accounted for on the cost basis		
Chateau M. T. Inc. . . . .	1,977	1,977
Sun Peaks Hotel Limited Partnership . . . . .	3,294	—
Other . . . . .	<u>3,071</u>	<u>—</u>
	8,342	1,977
	<u>\$52,083</u>	<u>\$58,954</u>

**5. INVESTMENT IN LEGACY**

During the 2000 fiscal year, the Company acquired 133,900 (1999 — 101,100) units for approximately \$728 (1999 — \$553) on the open market and participated in a Legacy equity issue, by acquiring 2,900,000 units for \$16,433. As at December 31, 2000, the Company owned 23,073,564 (1999 — 20,039,664) units of Legacy, representing 34.2% (1999 — 33.8%) of the units outstanding.

On February 1, 2001, the Company sold The Fairmont Empress in Victoria, British Columbia and Fairmont Le Château Frontenac in Quebec City, Quebec to Legacy for \$200,962. The selling price included 14.7 million exchangeable shares of a subsidiary corporation of Legacy at a price of \$5.67 per share and the balance of the selling price was satisfied in cash. Under an agreement with Legacy, the Company is required to make a cash payment of up to \$4,217 if certain performance measures are not

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**5. INVESTMENT IN LEGACY (Continued)**

met. The Company realized a net after-tax gain of \$83,454 from this transaction. This gain has been deferred as the sale was to a related party.

The exchangeable shares are entitled to a per share dividend equal to the ordinary distribution by Legacy to its unitholders, less taxes payable. Each exchangeable share is retractable at the fair market value of a Legacy unit after a minimum holding period of five years. The exchangeable shares are tied to voting certificates issued by Legacy that are entitled to one vote per voting certificate at meetings of Legacy unitholders.

The combination of Legacy units and the exchangeable shares represented a 46.0% ownership interest in Legacy by the Company.

On May 17, 2001, the Company participated in a secondary offering and sold 9,900,000 Legacy units at \$5.67 per unit. The sale reduced the Company's ownership interest in Legacy from 46.0% to 33.9% and triggered a gain of \$31,079.

**6. ACQUISITIONS**

**The Fairmont Kea Lani**

On February, 1, 2001, the Company acquired the Kea Lani Resort in Maui for \$214,261 in cash. The purchase price, including related acquisition costs paid in cash of approximately \$1,500, was allocated as follows:

Land . . . . .	\$ 49,678
Building . . . . .	192,400
Furniture, fixtures and equipment . . . . .	7,600
Note payable . . . . .	(30,176)
Working capital assumed . . . . .	(5,241)
	<u>\$214,261</u>

The acquisition was accounted for using the purchase method, and the results of the hotel have been included in the consolidated statement of income from the date of acquisition. The purchase price equation is not yet finalized.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**6. ACQUISITIONS (Continued)**

**The Fairmont Royal Pavilion and The Fairmont Glitter Bay**

On January 12, 2001, the Company acquired the remaining 51% interest in The Fairmont Royal Pavilion and The Fairmont Glitter Bay in Barbados for \$20,167 in cash. The total cost of the two hotels, including the 49% interest already owned, was \$33,801 and has been allocated as follows:

Land . . . . .	\$18,000
Building . . . . .	24,390
Furniture, fixtures and equipment . . . . .	960
Long-term debt assumed . . . . .	(8,500)
Working capital assumed . . . . .	(1,049)
	<u>\$33,801</u>

The acquisition was accounted for using the purchase method and the results of the two hotels have been included in the consolidated statement of income from the date of acquisition. The purchase price equation is not yet finalized.

**The Fairmont Chateau Whistler**

On November 30, 2000, the Company acquired Yamanouchi Real Estate Canada Ltd.'s 80% interest of the partnership that owns The Fairmont Chateau Whistler for \$93,563 cash. The total cost of the hotel, including the 20% partnership interest already owned and acquisition expenses of \$1,961, was \$111,481 and has been allocated as follows:

Land . . . . .	\$ 11,609
Building . . . . .	81,187
Furniture, fixtures and equipment . . . . .	8,676
Leasehold interest . . . . .	8,236
Working capital, including cash of \$7,771 . . . . .	1,773
Goodwill . . . . .	18,004
Future income taxes . . . . .	(18,004)
	<u>\$111,481</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 the acquisition.

**Fairmont**

On October 1, 1999, the Company completed the acquisition of Fairmont Hotels Management L.P. (FHMLP). FHMLP held the management contracts of seven hotels in the United States and owned 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

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**6. ACQUISITIONS (Continued)**

the common shares of Fairmont. In exchange for the 100% interest in 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 consolidated 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 the acquisition.

The purchase price, including related acquisition costs paid in cash of approximately \$6,589, was allocated as follows:

Management contracts . . . . .	\$27,796
Brand name and trademarks . . . . .	30,384
Goodwill . . . . .	7,585
Net long-term liabilities . . . . .	(2,327)
Provision for integration initiatives . . . . .	(6,589)
Future income taxes . . . . .	<u>(7,585)</u>
	<u>\$49,264</u>

**Princess Hotels**

In August 1998, the Company acquired seven Princess Hotels resort properties from Lonrho plc. Cash consideration of \$480,000 was paid, which included approximately \$6,000 of related acquisition costs, with the balance of the cost settled by the assumption of long-term debt of \$62,400. Five of the resort properties are 100% owned (two in Bermuda, two in Mexico and one in the United States) and the other two in Barbados were 49% owned. The acquisition was accounted for using the purchase method, and the results of operations of the five resorts (excluding the two Barbados properties) were included in the consolidated statement of income from date of the acquisition. The investment in the two Barbados' properties was accounted for by the equity method until January 2001 when the Company acquired the remaining 51% interest.

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

Working capital . . . . .	\$ 3,920
Land . . . . .	91,815
Buildings . . . . .	381,936
Furniture, fixtures and equipment . . . . .	30,291
Equity investment . . . . .	11,061
Goodwill . . . . .	69,927
Long-term debt . . . . .	(61,770)
Prepayment penalty on debt . . . . .	(19,797)
Provision for integration initiatives . . . . .	(12,868)
Future income taxes . . . . .	<u>(18,917)</u>
	<u>\$475,598</u>

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**6. ACQUISITIONS (Continued)**

**Delta**

In May 1998, the Company purchased 100% of the shares of Delta for cash consideration of \$61,990, which included approximately \$1,384 of related acquisition costs. The acquisition was accounted for using the purchase method, and the results of operations of Delta were included in the consolidated statement of income from date of the acquisition.

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

Working capital and other . . . . .	\$(1,975)
Leased hotels interest . . . . .	12,440
Capital assets . . . . .	2,202
Management contracts . . . . .	22,219
Brand name . . . . .	28,751
Goodwill . . . . .	21,749
Provision for integration initiatives . . . . .	(1,647)
Future income taxes . . . . .	<u>(21,749)</u>
	<u>\$61,990</u>

**Toronto Hotels**

In February 1998, the Company purchased 100% of the shares of two companies, whose principal assets were two hotel properties in the Toronto area. These companies were amalgamated with CPHREC on May 31, 1998. The acquisition was accounted for using the purchase method, and the results of operations of two hotels were in the consolidated statement of income from date of acquisition.

The total cash consideration paid was \$43,693, which included approximately \$659 in related acquisition costs.

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

Land . . . . .	\$ 1,977
Buildings . . . . .	27,410
Furniture, fixtures and equipment . . . . .	6,852
Benefit of tax loss carry-forwards . . . . .	7,248
Working capital . . . . .	<u>206</u>
	<u>\$43,693</u>

Concurrent with the acquisition, the Company entered into a purchase option agreement with Legacy (the Hotel Properties Agreement). The Company's acquisition was financed principally with a note from Legacy of \$39,863 due on September 30, 1999, with interest at 9.5% per annum. The note was repaid on the maturity date and the two Toronto hotels were sold to Legacy on September 30, 1999 for \$39,743 pursuant to the Hotel Properties Agreement.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**7. CAPITAL ASSETS**

	December 31, 2000			December 31, 1999
	Cost	Accumulated Amortization	Net	Net
Land and land improvements . . . . .	\$ 114,289	\$ 405	\$113,884	\$ 98,775
Buildings and equipment . . . . .	592,368	134,815	457,553	320,674
Buildings on leased land . . . . .	464,976	56,524	408,452	384,762
Leasehold improvements . . . . .	16,767	1,464	15,303	5,649
Operating equipment . . . . .	7,022	2,282	4,740	4,466
	<u>\$1,195,422</u>	<u>\$195,490</u>	<u>\$999,932</u>	<u>\$814,326</u>

As at December 31, 2000, buildings and equipment include construction-in-progress, which is not subject to amortization, totalling \$1,389 (1999 — \$nil).

**8. OTHER ASSETS AND DEFERRED CHARGES**

	December 31, 2000			December 31, 1999
	Cost	Accumulated Amortization	Net	Net
Goodwill . . . . .	\$115,815	\$ 5,646	\$110,169	\$ 93,544
Management contracts . . . . .	61,424	5,583	55,841	49,636
Brand names and trademarks . . . . .	65,379	2,969	62,410	61,889
Deferred charges . . . . .	5,734	483	5,251	2,475
Long-term advances and other . . . . .	27,845	—	27,845	6,144
	<u>\$276,197</u>	<u>\$14,681</u>	<u>\$261,516</u>	<u>\$213,688</u>

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**9. LONG-TERM DEBT**

	December 31,	
	2000	1999
Affiliated companies		
6.04% — 6.09% revolving term loans owing to Canadian Pacific Securities Limited (CPSL), due on demand <sup>(i)</sup> . . . . .	\$448,376	\$289,911
9.00% promissory note (unsecured) owing to CPSL, due March 21, 2000 . .	—	6,589
8.20% promissory note (unsecured) owing to CPSL, due October 16, 2000 . .	—	65,889
7.50% promissory note (unsecured) owing to CPSL, due May 1, 2001 <sup>(i)</sup> . . .	65,889	65,889
6.05% promissory note (unsecured) owing to CPSL, due October 16, 2001 <sup>(i)</sup> . . . . .	65,889	—
Other		
8.84% note owing to Connecticut General Life Insurance Company, maturing August 1, 2016 <sup>(ii)</sup> . . . . .	29,218	29,251
8.84% note owing to Massachusetts Mutual life Insurance Company, maturing August 1, 2016 <sup>(ii)</sup> . . . . .	29,218	29,251
	638,590	486,780
Less: Current portion of long-term debt maturing within one year . . . . .	1,808	1,612
	\$636,782	\$485,168

- (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. In the event that the Plan of Arrangement, as described earlier, proceeds, the debt with the affiliated company will be replaced by third party long-term facilities.
- (ii) The monthly blended principal and interest payments of the two 8.84% notes total \$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 . . . . .	\$ 1,808
2002 . . . . .	1,975
2003 . . . . .	2,157
2004 . . . . .	2,356
2005 . . . . .	2,573
Thereafter . . . . .	47,566
	\$58,435

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**10. SHARE CAPITAL**

Authorized

An unlimited number of common shares

Issued

	December 31, 2000		December 31, 1999	
	Number of Shares	Amount	Number of Shares	Amount
Balance — opening . . . . .	4,559	\$592,354	4,549	\$590,377
Issued for cash . . . . .	—	—	10	1,977
Balance — closing . . . . .	4,559	\$592,354	4,559	\$592,354

**11. CONTRIBUTED SURPLUS**

During the year ended December 31, 2000, Canadian Pacific Limited (CPL), the ultimate parent company, made a cash capital contribution of \$4,359.

**12. REVENUES UNDER MANAGEMENT (unaudited)**

The Company includes in income only operating revenues pertaining to owned, including leased, hotels. Revenues under management includes gross operating revenues generated by owned and managed hotels and amounts to \$1,625,559 for the year ended December 31, 2000 (1999 — \$1,179,602; 1998 — \$800,318).

**13. INCOME FROM INVESTMENTS AND OTHER**

	Year ended December 31,		
	2000	1999	1998
Equity in income (loss) of			
The Fairmont Chateau Whistler (note 6) . . . . .	\$ 1,928	\$ 1,820	\$ 1,095
The Fairmont Hotel Newfoundland . . . . .	261	241	9
Manoir Richelieu L.P. . . . .	1,647	1,392	1,185
Delta Vancouver Suites . . . . .	(219)	(230)	(384)
Pemberton Princess Hotels Limited — Barbados (note 6) . . . . .	1,900	957	(599)
Legacy . . . . .	11,428	10,341	7,167
Other <sup>(1)</sup> . . . . .	7,388	7,427	7,427
	\$24,333	\$21,948	\$15,900

(1) Reflects amortization over the term of the related assets of the deferred gain on the sale of capital assets to Legacy.



**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**14. INTEREST EXPENSE — NET**

	Year ended December 31,		
	2000	1999	1998
Long-term debt . . . . .	\$31,944	\$32,551	\$26,334
Other . . . . .	1,919	475	130
	<u>33,863</u>	<u>33,026</u>	<u>26,464</u>
Less			
Interest income . . . . .	2,124	1,005	1,620
Interest capitalized . . . . .	493	1,285	346
Imputed interest on note receivable . . . . .	—	—	3,281
	<u>\$31,246</u>	<u>\$30,736</u>	<u>\$21,217</u>

**15. INCOME TAXES**

Effective January 1, 2000, the Company retroactively adopted the recommendations of the CICA with restatement of prior periods with respect to accounting for income taxes as described in note 1. The result was to increase capital assets by \$241, increase goodwill by \$48,252, increase future tax liability by \$38,062 and decrease the opening deficit by \$10,431. 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 \$59,991 (1999 — \$9,383; 1998 — \$32,921) of non-capital tax losses for \$22,235 (1999 — \$3,592; 1998 — \$12,748). These acquired companies were amalgamated with CPHREC on January 1, 2001, January 1, 2000 and January 1, 1999 respectively.

At December 31, 2000, one of the Company's subsidiaries has losses for income tax purposes of approximately \$10,890, which may be carried forward and applied against its future years' taxable income when earned. These losses expire in 2004.

The difference between the income tax expense and the provision obtained by applying the statutory tax rate is as follows:

	2000	1999	1998
Provision at Canadian statutory rates . . . . .	\$51,120	\$44,416	\$29,552
Foreign tax rate differentials . . . . .	(6,558)	(4,853)	(1,550)
Non-taxable income . . . . .	(7,321)	(7,033)	(6,111)
Large corporation tax . . . . .	1,695	725	1,194
Reduction in tax rates . . . . .	(7,032)	—	—
Other . . . . .	1,030	(204)	(4,469)
Income tax expense . . . . .	<u>\$32,934</u>	<u>\$33,051</u>	<u>\$21,830</u>

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**15. INCOME TAXES (Continued)**

At December 31, 2000, the temporary differences comprising the future income tax liability in the consolidated balance sheet are as follows:

Depreciable capital assets . . . . .	\$ 61,572
Income tax losses . . . . .	(3,812)
Investments in partnerships and other . . . . .	13,573
Other assets . . . . .	31,627
Other . . . . .	<u>43,310</u>
Future income tax liability . . . . .	<u>\$146,270</u>

The future income tax asset comprises income tax losses which are expected to be used during the following year.

The Company's U.S. subsidiaries and certain of Canadian Pacific Limited's other U.S. subsidiaries file a consolidated U.S. income tax return. The consolidated tax liability of the affiliated group is allocated based on each company's contribution to consolidated federal taxable income. The Company is jointly and severally liable for any and all taxes which may be assessed.

**16. FINANCIAL INSTRUMENTS**

**Fair values of financial assets and financial liabilities**

The fair values of accounts receivable, owing by affiliated companies, bank loans, accounts payable and accrued liabilities and owing to affiliated companies 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 are estimated, based on rates currently available for long-term borrowing with similar terms and conditions and approximated their carrying values.

**Credit risk**

Due to the nature of the hotel business, the Company does not face any significant credit risk and there are no concentrations of credit risk with respect to its accounts receivable balances. The Company also extends credit in certain circumstances to the owners of buildings as new management contracts are signed.

**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 income from adopting this accounting policy change is not significant.

Under the new recommendations, the cost of pensions and other retirement benefits earned by employees is actuarially determined by using the projected benefit method pro-rated on service and management's best estimate of expected plan performance, salary escalation and retirement ages of

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**17. EMPLOYEE FUTURE BENEFITS (Continued)**

employees. 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 which provide for pensions. Pension benefits are based, principally, on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by federal or provincial pension supervisory authorities.

At December 31, 2000, the net benefit (credit) expense included the following components:

	<u>Pensions</u>
Current service cost (benefits earned by employees in the year) . . . . .	\$ 750
Interest cost on projected benefit obligation . . . . .	2,675
Expected return on pension fund assets . . . . .	(5,425)
Valuation allowance . . . . .	3,557
Amortization of	
Transitional obligation (asset) . . . . .	<u>(3,405)</u>
Net benefit (credit) expense . . . . .	<u><u>\$(1,848)</u></u>

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**17. EMPLOYEE FUTURE BENEFITS (Continued)**

Information about changes in the Company's defined benefit plans and the amounts recognized in the consolidated balance sheet is as follows:

	<u>2000 Pension Benefits</u>
Change in benefit obligation	
Benefit obligation — January 1 . . . . .	\$ 27,617
Effect of change in accounting policy . . . . .	11,551
Current service cost . . . . .	750
Interest cost . . . . .	2,675
Plan participants' contributions . . . . .	212
Actuarial loss (gain) . . . . .	969
Benefits paid . . . . .	<u>(3,596)</u>
Benefit obligation — December 31 . . . . .	<u>40,178</u>
Change in plan assets	
Fair value of assets — January 1 . . . . .	74,747
Actual return on plan assets . . . . .	7,363
Plan participants' contributions . . . . .	212
Benefits paid . . . . .	<u>(3,596)</u>
Fair value of plan assets — December 31 . . . . .	<u>78,726</u>
Funded status — plan surplus (deficit) . . . . .	38,548
Unamortized net actuarial loss (gain) . . . . .	(899)
Unamortized prior service cost . . . . .	—
Unamortized net transitional obligation (asset) and valuation allowance . . . . .	<u>(40,901)</u>
Accrued benefit liability, net of valuation allowance in consolidated balance sheet <sup>(1)</sup> . .	<u>\$ (3,252)</u>

(1) The net accrued benefit cost on the consolidated balance sheet is included in other liabilities offset by other assets.

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

Accrued benefit obligation . . . . .	\$(40,178)
Fair value of plan assets . . . . .	<u>78,726</u>
Funded status — surplus . . . . .	<u>38,548</u>
Accrued benefit obligation, net of valuation allowance . . . . .	<u>\$ (3,252)</u>

Weighted average assumptions as at December 31

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

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**17. EMPLOYEE FUTURE BENEFITS (Continued)**

Pension fund assets consist primarily of listed stocks and bonds.

The Company also has defined contribution plans. The net expense for such plans, which generally equals the employer's required contribution, was \$2,593 in 2000.

**18. COMMITMENTS AND CONTINGENCIES**

**Capital expenditures**

Capital expenditures in 2001 in excess of \$100,000 are planned for existing wholly owned or leased hotels. Contractual commitments in respect of the foregoing projects totalled approximately \$23,786 at December 31, 2000.

**Leases**

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

2001 . . . . .	\$ 9,161
2002 . . . . .	8,607
2003 . . . . .	7,949
2004 . . . . .	7,337
2005 . . . . .	6,710
Thereafter . . . . .	<u>42,416</u>
	<u>\$82,180</u>

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

**Guarantees**

The Company has guaranteed up to \$3,294 of debt relating to the investment in Chateau M. T. Inc. and up to \$7,000 of debt in connection with the nearly completed renovation at The Fairmont San Francisco.

**General**

The Company is subject to various claims and legal proceedings with respect to matters such as governmental regulations, income taxes and other actions arising out of the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the Company's financial position or results from operations.

**19. RELATED PARTY TRANSACTIONS**

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

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**19. RELATED PARTY TRANSACTIONS (Continued)**

The Company has financing arrangements on normal commercial terms with members of the Canadian Pacific group (note 9) and interest expense paid during the year ended December 31, 2000 amounted to \$29,094 (1999 — \$25,549; 1998 — \$20,826).

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 reservations, sales and marketing, central purchasing, accounting, management information, and employee training services to Legacy. The total amount of these reimbursements during the year was \$11,210 (1999 — \$10,280; 1998 — \$8,600).

Fees received from Legacy for services provided during the following periods were as follows:

	Year ended December 31,		
	2000	1999	1998
Management . . . . .	\$14,974	\$11,938	\$ 7,586
Advisory . . . . .	3,000	2,807	2,414
Acquisition . . . . .	252	—	341
	\$18,226	\$14,745	\$10,341

Included in accounts receivable at December 31, 2000 are amounts owing by Legacy of \$5,092 (1999 — \$3,019; 1998 — \$3,181).

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**20. SUPPLEMENTAL CASH FLOW INFORMATION**

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cash interest paid . . . . .	\$31,151	\$38,456	\$24,668
Cash interest received . . . . .	2,124	1,005	1,620
Income taxes paid . . . . .	18,760	8,239	10,498

**Changes in non-cash working capital balances**

	<u>Year ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
(Increase) decrease in current assets			
Accounts receivable . . . . .	\$(19,405)	\$(27,410)	\$(29,123)
Materials and supplies . . . . .	221	(395)	(5,660)
Prepaid expenses . . . . .	(687)	329	(3,453)
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities . . . . .	10,307	(6,062)	20,442
Income taxes payable . . . . .	8,671	4,577	720
Increase in non-cash working capital balances . . . . .	<u>\$ (893)</u>	<u>\$(28,961)</u>	<u>\$(17,074)</u>

**21. REPORTING SEGMENTS AND GEOGRAPHICAL INFORMATION**

The Company has four reportable operating segments in two core business activities, hotel ownership and management operations. The segments are hotel ownership, investment in Legacy, Fairmont and Delta. Hotel ownership consists of real estate interests ranging from approximately 20% to 100% in 20 properties. The investment in Legacy consists of an approximate 34% equity interest in Legacy, which owns 21 hotels and resorts across Canada. Fairmont is a luxury hotel management company and Delta is a Canadian first class hotel and resort management company.

The performance of all segments is evaluated primarily on earnings before interest, taxes, depreciation and amortization, which is defined as operating income before amortization expense. Amortization, other income and expenses, interest, income taxes and goodwill are not allocated to the individual segments. All transactions among operating segments are done at fair market value.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**21. REPORTING SEGMENTS AND GEOGRAPHICAL INFORMATION (Continued)**

The following tables present revenues, earnings before interest, taxes and amortization, total assets and capital expenditures for the Company's reportable segments:

	<b>June 30, 2001</b>					
	<b>Hotel Ownership</b>	<b>Legacy</b>	<b>Hotel management</b>		<b>Inter- segment Elimination<sup>(b)</sup></b>	<b>Total</b>
			<b>Fairmont<sup>(a)</sup></b>	<b>Delta</b>		
			(unaudited)			
Revenues . . . . .	\$ 267,495	\$ 2,041	\$ 20,421	\$ 5,290	\$ (8,263)	\$ 286,984
Earnings before interest, taxes and amortization <sup>(c)</sup> .	73,630	2,041	14,960	3,596	—	94,227
Amortization . . . . .						24,986
Operating income . . . . .						69,241
Total assets . . . . .	1,461,687	59,292	166,006	72,432		1,759,417
Capital expenditures . . . . .	50,264	—	2,330	703		53,297
			<b>June 30, 2000</b>			
	<b>Hotel Ownership</b>	<b>Legacy</b>	<b>Hotel management</b>		<b>Inter- segment Elimination<sup>(b)</sup></b>	<b>Total</b>
			<b>Fairmont<sup>(a)</sup></b>	<b>Delta</b>		
			(unaudited)			
Revenues . . . . .	\$ 229,379	\$ 3,580	\$ 18,550	\$ 5,127	\$ (6,510)	\$ 250,126
Earnings before interest, taxes and amortization <sup>(c)</sup> .	65,330	3,580	12,163	3,477	—	84,550
Amortization . . . . .						18,591
Operating income . . . . .						65,995
Total assets . . . . .	1,078,666	71,828	115,204	85,200		1,350,898
Capital expenditures . . . . .	27,414	—	6,160	339		33,913



**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**21. REPORTING SEGMENTS AND GEOGRAPHICAL INFORMATION (Continued)**

	December 31, 2000					
	Hotel Ownership	Legacy	Hotel management		Inter- segment Elimination <sup>(b)</sup>	Total
			Fairmont <sup>(a)</sup>	Delta		
Revenues . . . . .	\$ 477,599	\$11,428	\$ 43,284	\$11,948	\$(13,386)	\$ 530,873
Earnings before interest, taxes and amortization <sup>(c)</sup> .	143,409	11,428	31,942	8,606	—	195,385
Amortization . . . . .						39,760
Operating income . . . . .						155,625
Total assets . . . . .	1,244,874	86,611	158,734	82,122	—	1,572,341
Capital expenditures . . . . .	74,948	—	11,821	68	—	86,837
	December 31, 1999					
	Hotel Ownership	Legacy	Hotel management		Inter- segment Elimination <sup>(b)</sup>	Total
			Fairmont <sup>(a)</sup>	Delta		
Revenues . . . . .	\$ 451,315	\$10,341	\$ 25,159	\$ 9,962	\$ (6,002)	\$ 490,775
Earnings before interest, taxes and amortization <sup>(c)</sup> .	133,421	10,341	17,191	6,310	—	167,263
Amortization . . . . .						32,019
Operating income . . . . .						135,244
Total assets . . . . .	995,703	64,318	103,751	84,886	—	1,248,658
Capital expenditures . . . . .	76,526	—	3,123	1,181	—	80,830
	December 31, 1998					
	Hotel Ownership	Legacy	Hotel management		Inter- segment Elimination <sup>(b)</sup>	Total
			Fairmont <sup>(a)</sup>	Delta		
Revenues . . . . .	\$ 312,345	\$ 7,167	\$ 15,342	\$ 5,691	\$ (584)	\$ 339,961
Earnings before interest, taxes and amortization <sup>(c)</sup> .	92,869	7,167	9,450	3,549	—	113,035
Amortization . . . . .						22,446
Operating income . . . . .						90,589
Total assets . . . . .	1,023,764	58,230	7,585	81,823	—	1,174,679
Capital expenditures . . . . .	33,582	—	—	28	—	33,610

(a) Fairmont was acquired on October 1, 1999. For the period from January 1, 1998 to September 30, 1999, the results of the Company's previous management company have been included in this operating segment.

(b) Inter-segment eliminations represent management fees that are charged by Fairmont and Delta to the hotel ownership operations. These fees are eliminated on consolidation.

(c) Defined as operating income before amortization expense.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**21. REPORTING SEGMENTS AND GEOGRAPHICAL INFORMATION (Continued)**

**Geographical information**

	Revenues			Capital Assets and Goodwill		
	2000	1999	1998	2000	1999	1998
Canada . . . . .	\$293,407	\$292,147	\$276,428	\$ 717,675	\$ 467,852	\$390,837
United States . . . . .	90,557	71,270	25,425	286,494	274,648	287,490
Bermuda . . . . .	88,906	83,090	26,085	205,295	188,699	197,494
Other international . . . . .	58,003	44,268	12,023	104,214	78,709	75,565
	<u>\$530,873</u>	<u>\$490,775</u>	<u>\$339,961</u>	<u>\$1,313,678</u>	<u>\$1,009,908</u>	<u>\$951,386</u>

Revenues and assets are allocated to countries based upon the hotels' geographic location. There were no other individual international countries comprising greater than 10% of the revenues and capital assets and goodwill of the Company as at December 31, 2000, 1999 or 1998.

**22. RECLASSIFICATION**

Certain of the prior year's figures have been reclassified to conform with the current period's presentation.

**23. SUBSEQUENT EVENTS**

On July 16, 2001, Fairmont announced that it would manage a 393-room luxury business hotel in Dubai. Additionally, Fairmont reported that an agreement to acquire a minority stake in the project had been made with the owner, His Highness Dr. Sheikh Sultan bin Khalifa Al Nahyan.

On July 23, 2001, Fairmont announced that it had completed a transaction, effective June 2001, to purchase a 50% equity interest in The Fairmont Copley Plaza Boston from entities controlled by Prince Alwaleed bin Talal bin Abdulaziz Al Saud of Saudi Arabia. Fairmont has also obtained a new long-term management contract. The consideration for these transactions was approximately \$23,000.

**24. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The material differences are described below along with their effect on the Company's consolidated statement of income, consolidated balance sheet and consolidated statement of cash flows.

**Change in reporting currency**

The Company's consolidated financial statements have historically been expressed in Canadian dollars. The U.S. dollar has been adopted as the Company's reporting currency effective June 30 2001. Under Canadian GAAP, comparative financial statements have been restated using the June 30, 2001 rate under the translation of convenience method. U.S. GAAP requires the restatement of comparative financial statements using the average and closing rates in effect during the period.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands of U.S. dollars)**

**24. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (Continued)**

Due to the significance of this difference, the impact of the exchange rate differences has been summarized in the reconciliation of net income but condensed consolidated financial statements for all prior periods affected have also been included.

**Derivative instruments and hedging**

For United States reporting, forward rate contracts associated with anticipated future transactions that do not constitute firm commitments are recognized in the consolidated financial statements at fair value. Gains or losses resulting from changes in the market value are immediately reflected in income. One of the Company's equity investments had one forward rate contract which qualified as a hedge for accounting purposes under Canadian GAAP, and therefore, was not recognized in income for Canadian GAAP purposes.

**Internal use software**

Under Canadian GAAP, computer system development costs for internal use software are capitalized when the project is expected to be of continuing benefit to the Company and are otherwise expensed. United States standards require that certain costs of computer software developed for internal use be capitalized and amortized.

**Acquisitions costs**

Under Canadian GAAP certain integration costs may be reflected in the purchase price equation. These costs should be expensed under U.S. GAAP when incurred.

**Comprehensive income**

United States GAAP requires the disclosure, as other comprehensive income, of changes in equity during the period from transactions and other events from non-owner sources. Canadian GAAP does not require similar disclosure. Other comprehensive income arose from foreign currency translation adjustments.

**Accounting for gains on sale of properties to Legacy**

Under Canadian GAAP, recognition of gains on sale of assets to related parties are not permitted to be recorded in income. U.S. GAAP permits this treatment but also allows recognition of the gains to the extent of third party interest. The Company has not recognized these gains for U.S. GAAP.

**Recent U.S. GAAP Pronouncements**

On July 20, 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets which are required to be implemented with effect from July 1, 2001 and January 1, 2002 respectively. FASB Statement No. 141 requires that all business combinations be accounted for by the purchase method. FASB Statement No. 142 addresses the accounting for acquired goodwill and other intangible assets and contains certain transitional provisions which may affect classification of intangible assets, as well as the balance of goodwill. The on-going impact will be that goodwill will no longer be amortized, but instead will be tested at least annually for impairment. The requirements of both statements will be applied prospectively from the effective date for the purposes of presenting U.S. GAAP financial information. The Company is assessing the impact that this new standard will have on its financial position and results of operations.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**24. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (Continued)**

The following is a reconciliation of net income under Canadian GAAP to net income under United States GAAP:

	Six months ended June 30,		Year ended December 31,		
	2001 (unaudited)	2000 (unaudited)	2000	1999	1998
<b>Net income — Canadian GAAP</b> . . . . .	\$37,322	\$36,053	\$ 85,291	\$ 69,271	\$50,129
Increased (decreased) by					
Gain (loss) on forward rate contract . . .	294	—	(1,158)	—	—
Computer software costs (net) . . . . .	16,625	—	—	—	—
Acquisition costs . . . . .	81	85	168	(6,730)	—
Translation rates . . . . .	(408)	1,249	1,866	1,487	1,169
Adjusted net income before tax . . . . .	53,914	37,387	86,167	64,028	51,298
Future income tax expense (recovery) on above items . . . . .	6,832	34	(396)	(2,692)	—
<b>Net income — United States GAAP</b> . . . . .	<u>\$47,082</u>	<u>\$37,353</u>	<u>\$ 86,563</u>	<u>\$ 66,720</u>	<u>\$51,298</u>
<b>Other comprehensive income</b>					
Foreign currency translation adjustments . .	10,386	(2,802)	17,054	(22,506)	8,522
Comprehensive income . . . . .	<u>\$57,486</u>	<u>\$34,551</u>	<u>\$103,617</u>	<u>\$ 44,214</u>	<u>\$59,820</u>

Under U.S. GAAP, goodwill charges should be included with amortization expense and would not be reflected net of tax. In addition, the write off of deferred development charges, management contracts, leasehold improvements and equity investment (see Note 3) would be reflected as a reduction to operating income and not reflected in other expenses.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**24. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (Continued)**

**Consolidated balance sheet**

The following shows the differences, higher (lower), had the consolidated balance sheet been prepared under United States GAAP:

	<u>June 30,</u> <u>2001</u>	<u>December 31,</u>	
	(unaudited)	<u>2000</u>	<u>1999</u>
<b>Assets</b>			
Investments . . . . .	\$ (519)	\$ (695)	\$ —
Capital assets . . . . .	16,625	—	—
Other assets . . . . .	(6,342)	(6,500)	(6,730)
Translation rates . . . . .	—	18,341	60,589
	<u>\$ 9,764</u>	<u>\$11,146</u>	<u>\$53,859</u>
<b>Liabilities and shareholder's equity</b>			
Future income taxes . . . . .	\$ 3,991	\$ (2,600)	\$ (2,692)
Shareholder's equity			
Retained earnings (deficit) . . . . .	5,276	(4,632)	(4,038)
Accumulated other comprehensive income . . . . .	497	37	—
Translation rates . . . . .	—	18,341	60,589
	<u>\$ 9,764</u>	<u>\$11,146</u>	<u>\$53,859</u>

Under U.S. GAAP, the long-term debt with affiliated companies of \$880,500 (1999 — \$550,000) would be reclassified as current liabilities from long-term debt as the balances are payable on demand or due within the upcoming year.

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**24. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (Continued)**

**Condensed consolidated balance sheet**

	<u>June 30,</u> <u>2001</u>	<u>December 31,</u>	
	(unaudited)	<u>2000</u>	<u>1999</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents . . . . .	\$ 15,261	\$ 46,971	\$ 10,162
Accounts receivable and deposits . . . . .	64,196	54,938	45,017
Other current assets . . . . .	63,078	49,806	30,508
Future income taxes and income taxes recoverable . . . . .	22,235	22,494	12,928
	<u>164,770</u>	<u>174,209</u>	<u>98,615</u>
Investments . . . . .	96,505	139,615	129,626
Capital assets . . . . .	1,259,416	1,011,596	856,303
Other assets . . . . .	248,490	258,067	217,973
	<u>\$1,769,181</u>	<u>\$1,583,487</u>	<u>\$1,302,517</u>
<b>Liabilities</b>			
Current liabilities			
Bank loans, accounts payable and accrued liabilities . . . . .	\$ 100,866	\$ 100,990	\$ 73,012
Other current liabilities . . . . .	37,206	5,008	4,919
Income taxes payable . . . . .	—	10,900	2,222
	<u>138,072</u>	<u>116,898</u>	<u>80,153</u>
Long-term debt and other liabilities . . . . .	788,297	677,736	543,801
Future income taxes . . . . .	170,504	145,376	125,440
Non-controlling interest . . . . .	49,317	48,038	45,469
	<u>1,146,190</u>	<u>988,048</u>	<u>794,863</u>
<b>Shareholder's Equity</b>			
Share capital . . . . .	592,354	599,264	622,889
Contributed surplus . . . . .	4,359	4,410	—
Accumulated other comprehensive income . . . . .	15,326	4,175	(16,262)
Retained earnings (deficit) . . . . .	10,952	(12,410)	(98,973)
	<u>622,991</u>	<u>595,439</u>	<u>507,654</u>
	<u>\$1,769,181</u>	<u>\$1,583,487</u>	<u>\$1,302,517</u>

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**24. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (Continued)**

**Condensed consolidated statement of income**

	Six months ended June 30,		Year ended December 31,		
	2001 (unaudited)	2000 (unaudited)	2000	1999	1998
Revenues					
Hotel ownership operations . . . . .	\$259,045	\$230,330	\$474,863	\$449,148	\$310,695
Management operations . . . . .	17,256	17,762	42,762	29,744	20,926
Income from investments . . . . .	7,717	10,696	24,170	22,420	16,271
	<u>284,018</u>	<u>258,788</u>	<u>541,795</u>	<u>501,312</u>	<u>347,892</u>
Expenses					
Hotel ownership operations . . . . .	183,569	162,964	327,824	318,588	223,999
Management operations . . . . .	7,078	8,346	15,005	18,599	8,221
Amortization . . . . .	26,131	20,322	42,934	34,744	23,782
	<u>216,778</u>	<u>191,632</u>	<u>385,763</u>	<u>371,931</u>	<u>256,002</u>
Operating income . . . . .	67,240	67,156	156,032	129,381	91,890
Other (income) and expenses . . . . .	(8,996)	—	—	—	—
Interest expense — net . . . . .	21,725	15,900	31,930	31,396	21,712
Income before income tax expense and non-controlling interest . . . . .	<u>54,511</u>	<u>51,256</u>	<u>124,102</u>	<u>97,985</u>	<u>70,178</u>
Income tax expense (recovery)					
Current . . . . .	8,969	8,522	26,617	13,570	10,705
Future . . . . .	(3,354)	3,256	6,586	17,117	8,175
	<u>5,615</u>	<u>11,778</u>	<u>33,203</u>	<u>30,687</u>	<u>18,880</u>
Non-controlling interest share of income of subsidiary . . . . .	1,814	2,125	4,336	578	—
Net income for the period . . . . .	<u>\$ 47,082</u>	<u>\$ 37,353</u>	<u>\$ 86,563</u>	<u>\$ 66,720</u>	<u>\$ 51,298</u>

**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**24. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (Continued)**

**Condensed consolidated cash flow statement**

	Six months ended June 30,		Year ended December 31,		
	2001	2000	2000	1999	1998
	(unaudited)	(unaudited)			
Cash provided by (used in)					
Operating activities					
Net income for the period . . . . .	\$ 47,082	\$ 37,353	\$ 86,563	\$ 66,720	\$ 51,298
Items not affecting cash					
Amortization . . . . .	26,131	20,322	42,934	34,744	23,782
Income from investments . . . . .	(7,717)	(10,696)	(24,170)	(22,420)	(16,271)
Future income taxes . . . . .	(3,354)	3,256	6,586	17,117	8,345
Foreign currency (gain) loss . . . . .	2,108	(255)	830	71	—
(Gain) loss on sale of capital assets and investments . . . . .	(30,739)	—	11	(1,215)	36
Distributions from investments . . .	5,493	6,351	18,448	13,886	12,540
Non-controlling interest share of income of subsidiary . . . . .	1,814	2,125	4,336	576	—
Write-offs of other assets . . . . .	21,742	—	—	—	—
Other . . . . .	(3,049)	(1,317)	(2,906)	358	3,188
Purchase of tax loss . . . . .	—	—	(22,722)	(3,669)	(13,045)
Changes in non-cash working capital items . . . . .	(38,960)	(26,080)	(913)	(29,583)	(17,472)
	<u>\$ 20,551</u>	<u>\$ 31,059</u>	<u>\$ 108,997</u>	<u>\$ 76,585</u>	<u>\$ 52,401</u>
Investing activities					
Investment in hotel partnerships and corporations . . . . .	\$ (1,644)	\$ (1,953)	\$ (7,432)	\$(16,318)	\$ (11,039)
Proceeds from sale of (investment in) units of Legacy . . . . .	52,877	—	(17,831)	(565)	(1,595)
Additions to capital assets . . . . .	(52,713)	(35,087)	(88,737)	(82,565)	(34,394)
Proceeds from sale of capital assets . . . . .	113,781	—	126	43,143	10,414
Proceeds from note receivable . . . . .	—	—	—	—	82,250
Additions to other assets . . . . .	—	—	(43,777)	(3,403)	(807)
Acquisitions . . . . .	(233,452)	—	(92,382)	(5,919)	(594,842)
Other . . . . .	(17,353)	(6,952)	—	—	2,664
	<u>\$(138,504)</u>	<u>\$(43,992)</u>	<u>\$(250,033)</u>	<u>\$(65,627)</u>	<u>\$(547,349)</u>



**CANADIAN PACIFIC HOTELS & RESORTS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**24. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (Continued)**

	Six months ended June 30,		Year ended December 31,		
	2001 (unaudited)	2000 (unaudited)	2000	1999	1998
Financing activities					
Increase in bank loans . . . . .	\$ 19,811	\$ —	\$ 17,285	\$ —	\$ —
Repayment of bank loans . . . . .	(16,730)	—	—	—	—
Issuance (repayment) of note to Legacy . . . . .	—	—	—	(40,719)	40,793
Issuance of long-term debt . . . . .	129,318	28,018	229,261	28,941	267,683
Repayment of long-term debt . . . . .	(23,286)	(7,639)	(75,757)	(1,544)	(70,894)
Other liabilities . . . . .	1,057	(768)	2,901	1,874	4,813
Issuance of common shares . . . . .	—	—	—	2,019	283,190
Dividends . . . . .	(23,460)	—	—	(6,499)	(14,410)
Capital contributed by parent . . . . .	—	—	4,563	—	—
	<u>86,710</u>	<u>19,611</u>	<u>178,253</u>	<u>(15,928)</u>	<u>511,175</u>
Effect of exchange rate changes on cash balance . . . . .	<u>(467)</u>	<u>(291)</u>	<u>(408)</u>	<u>(1,161)</u>	<u>989</u>
Increase (decrease) in cash balance during the period . . . . .	(31,710)	6,387	36,809	(6,131)	17,216
Cash balance — beginning of period . . .	46,971	10,162	10,162	16,293	(923)
Cash balance — end of period . . . . .	<u>\$ 15,261</u>	<u>\$ 16,549</u>	<u>\$ 46,971</u>	<u>\$ 10,162</u>	<u>\$ 16,293</u>
Represented by					
Cash and cash equivalents . . . . .	\$ 8,963	\$ 10,705	\$ 41,837	\$ 6,495	\$ 13,319
Deposits with affiliated company . . .	6,298	5,844	5,134	3,667	2,974
	<u>\$ 15,261</u>	<u>\$ 16,549</u>	<u>\$ 46,971</u>	<u>\$ 10,162</u>	<u>\$ 16,293</u>

## COMPILATION REPORT

**To The Directors of  
Canadian Pacific Hotels & Resorts Inc.**

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated balance sheet of Fairmont Hotels & Resorts Inc. as at June 30, 2001 and the unaudited pro forma consolidated statements of income for the year ended December 31, 2000 and the six month periods ended June 30, 2001 and 2000. These pro forma consolidated financial statements have been prepared for inclusion in the Arrangement Circular dated August 3, 2001. In our opinion, the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statements of income have been properly compiled to give effect to the transactions and the assumptions described in the notes thereto.

Toronto, Ontario  
August 3, 2001

(Signed) PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants

**FAIRMONT HOTELS & RESORTS INC.**  
**PRO FORMA CONSOLIDATED BALANCE SHEET**  
**As at June 30, 2001**

	<u>CPH&amp;R As previously reported</u>	<u>CPL Corporate Note 2(a)</u>	<u>Adjustments</u>		<u>Pro forma</u>
			(in thousands of U.S. dollars) (unaudited)		
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents . . . . .	\$ 8,963	\$ 394,877	\$ 1,120,116	2(b)	\$ 30,088
			(640,442)	2(c)	
			(209,138)	2(d)	
			(181,195)	2(e)	
			(9,093)	2(f)	
			(454,000)	2(h)	
Deposits with affiliated company . . . . .	6,298	(40,085)	33,787	2(d)	—
Accounts receivable . . . . .	64,196	7,887	—		72,083
Materials and supplies . . . . .	11,110	—	—		11,110
Prepaid expenses and other . . . . .	11,521	9,300	—		20,821
Owing by affiliated companies . . . . .	40,447	313,780	(354,227)	2(d)	—
Future income taxes . . . . .	22,235	—	—		22,235
	<u>164,770</u>	<u>685,759</u>	<u>(694,192)</u>		<u>156,337</u>
<b>Investments in hotel partnerships and corporations . . . . .</b>	<b>37,772</b>	<b>6,583</b>	<b>—</b>		<b>44,355</b>
<b>Investment in Legacy Hotels Real Estate Investment Trust . . . . .</b>	<b>59,252</b>	<b>—</b>	<b>—</b>		<b>59,252</b>
<b>Investment in CPH&amp;R . . . . .</b>	<b>—</b>	<b>596,713</b>	<b>(596,713)</b>	<b>2(g)</b>	<b>—</b>
<b>Capital assets . . . . .</b>	<b>1,242,791</b>	<b>120,038</b>	<b>—</b>		<b>1,362,829</b>
<b>Other assets and deferred charges . . . . .</b>	<b>254,832</b>	<b>20,440</b>	<b>(11,860)</b>	<b>2(e)</b>	<b>263,412</b>
	<u>\$1,759,417</u>	<u>\$1,429,533</u>	<u>\$(1,302,765)</u>		<u>\$1,886,185</u>

**FAIRMONT HOTELS & RESORTS INC.**  
**PRO FORMA CONSOLIDATED BALANCE SHEET**  
**As at June 30, 2001**

	<u>CPH&amp;R</u> <u>As previously</u> <u>reported</u>	<u>CPL</u> <u>Corporate</u> <u>Note 2(a)</u>	<u>Adjustments</u>	<u>Pro forma</u>
			(in thousands of U.S. dollars) (unaudited)	
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank loans . . . . .	\$ 20,030	\$ —	\$ —	\$ 20,030
Accounts payable and accrued liabilities . . .	80,836	48,885	(8,566) 2(e) (7,247) 2(f)	113,908
Owing to affiliated companies . . . . .	3,603	(3,603)	—	—
Income taxes payable . . . . .	—	88	—	88
Current portion of long-term debt . . . . .	33,603	(10,015)	—	23,588
Dividend payable . . . . .	—	34,228	(1,977) 2(f)	32,251
	<u>138,072</u>	<u>69,583</u>	<u>(17,790)</u>	<u>189,865</u>
<b>Other liabilities</b> . . . . .	36,872	74,029	(21,743) 2(e)	89,158
<b>Long-term debt</b> . . . . .	751,425	283,810	(461,224) 2(c) (454,000) 2(h)	120,011
<b>Loans to affiliated companies</b> . . . . .	—	529,578	(529,578) 2(d)	—
<b>Future income taxes</b> . . . . .	166,513	6,471	(11,333) 2(c) (65,098) 2(e)	96,553
<b>Non-controlling interest</b> . . . . .	49,317	—	—	49,317
	<u>1,142,199</u>	<u>963,471</u>	<u>(1,560,766)</u>	<u>544,904</u>
<b>Shareholders' Equity</b>				
<b>Preferred shares</b> . . . . .	—	144,956	(144,956) 2(c)	—
<b>Common shares</b> . . . . .	592,354	1,164,943	(592,354) 2(g)	1,164,943
<b>Paid — in surplus</b> . . . . .	4,359	57,420	(4,359) 2(g)	57,420
<b>Foreign currency translation adjustments</b> . .	14,551	30,003	—	44,554
<b>Retained earnings (deficit)</b> . . . . .	5,954	(931,260)	1,120,116 2(b) (22,929) 2(c) (97,648) 2(e) 131 2(f)	74,364
	<u>617,218</u>	<u>466,062</u>	<u>258,001</u>	<u>1,341,281</u>
	<u>\$1,759,417</u>	<u>\$1,429,533</u>	<u>\$(1,302,765)</u>	<u>\$1,886,185</u>

**FAIRMONT HOTELS & RESORTS INC.**  
**PRO FORMA CONSOLIDATED STATEMENT OF INCOME**  
For the six months ended June 30, 2001

	<u>CPH&amp;R</u> As previously reported	<u>CPL</u> Corporate Note 2(a)	<u>Adjustments</u>		<u>Pro forma</u>
	(in thousands of U.S. dollars except per share amounts) (unaudited)				
<b>Revenues</b>					
Hotel ownership operations . . . . .	\$261,912	\$ —	\$ —		\$261,912
Management operations . . . . .	17,448	—	—		17,448
Income from investments and other . . . . .	7,624	9,949	—		17,573
	<u>286,984</u>	<u>9,949</u>	<u>—</u>		<u>296,933</u>
<b>Expenses</b>					
Hotel ownership operations . . . . .	185,601	—	—		185,601
Management operations . . . . .	7,156	—	—		7,156
Amortization . . . . .	24,986	—	—		24,986
	<u>217,743</u>	<u>—</u>	<u>—</u>		<u>217,743</u>
<b>Operating income</b> . . . . .	69,241	9,949	—		79,190
<b>Other (income) and expense</b> . . . . .	7,713	30,966	—		38,679
<b>Interest expense (income) — net</b> . . . . .	21,966	17,697	(23,127)	2(i)	16,536
<b>Income (loss) before income tax expense, non-controlling interest and goodwill charges</b> .	<u>39,562</u>	<u>(38,714)</u>	<u>23,127</u>		<u>23,975</u>
<b>Income tax expense (recovery)</b>					
Current . . . . .	9,068	—	9,224	2(j)	18,292
Future . . . . .	(9,895)	(13,509)	—		(23,404)
	<u>(827)</u>	<u>(13,509)</u>	<u>9,224</u>		<u>(5,112)</u>
<b>Non-controlling interest share of income of subsidiary</b> . . . . .	1,834	—	—		1,834
<b>Income before goodwill charges</b> . . . . .	38,555	(25,205)	13,903		27,253
<b>Goodwill charges</b> . . . . .	1,517	—	—		1,517
<b>Income taxes thereon</b> . . . . .	(284)	—	—		(284)
<b>Net income for the period</b> . . . . .	<u>\$ 37,322</u>	<u>\$(25,205)</u>	<u>\$ 13,903</u>		<u>\$ 26,020</u>
<b>Pro forma basic earnings per share — Note 2(k)</b> . . . . .					<u>\$ 0.33</u>

**FAIRMONT HOTELS & RESORTS INC.**  
**PRO FORMA CONSOLIDATED STATEMENT OF INCOME**  
For the year ended December 31, 2000

	<u>CPH&amp;R</u> As previously reported	<u>CPL</u> Corporate Note 2(a)	<u>Adjustments</u>	<u>Pro forma</u>
	(in thousands of U.S. dollars except per share amounts) (unaudited)			
<b>Revenues</b>				
Hotel ownership operations . . . . .	\$464,694	\$ —	\$ —	\$464,694
Management operations . . . . .	41,846	—	—	41,846
Income from investments and other . . . . .	24,333	6,062	—	30,395
	<u>530,873</u>	<u>6,062</u>	<u>—</u>	<u>536,935</u>
<b>Expenses</b>				
Hotel ownership operations . . . . .	320,804	—	—	320,804
Management operations . . . . .	14,684	—	—	14,684
Amortization . . . . .	39,760	—	—	39,760
	<u>375,248</u>	<u>—</u>	<u>—</u>	<u>375,248</u>
<b>Operating income</b> . . . . .	155,625	6,062	—	161,687
<b>Other (income) and expenses</b> . . . . .	—	82,892	—	82,892
<b>Interest expense (income) — net</b> . . . . .	31,246	13,173	(45,266)	2(i) (847)
<b>Income (loss) before income tax expense, non-controlling interest and goodwill amortization</b> . . . . .	124,379	(90,003)	45,266	79,642
<b>Income tax expense (recovery)</b>				
Current . . . . .	26,047	—	18,120	2(j) 44,167
Future . . . . .	6,887	(57,822)	—	(50,935)
	<u>32,934</u>	<u>(57,822)</u>	<u>—</u>	<u>(6,768)</u>
<b>Non-controlling interest share of income of subsidiary</b> . . . . .	4,243	—	—	4,243
<b>Income (loss) before goodwill charges</b> . . . . .	87,202	(32,181)	27,146	82,167
<b>Goodwill charges</b> . . . . .	2,419	—	—	2,419
<b>Taxes thereon</b> . . . . .	(508)	—	—	(508)
<b>Net income for the period</b> . . . . .	<u>\$ 85,291</u>	<u>\$(32,181)</u>	<u>\$ 27,146</u>	<u>\$ 80,256</u>
<b>Pro forma basic earnings per share — Note 2(k)</b> . . . . .				<u>\$ 1.01</u>

**FAIRMONT HOTELS & RESORTS INC.**  
**PRO FORMA CONSOLIDATED STATEMENT OF INCOME**  
For the six months ended June 30, 2000

	<u>CPH&amp;R</u> As previously reported	<u>CPL</u> Corporate Note 2(a)	<u>Adjustments</u>		<u>Pro forma</u>
	(in thousands of U.S. dollars except per share amounts) (unaudited)				
<b>Revenues</b>					
Hotel ownership operations . . . . .	\$222,620	\$ —	\$ —		\$222,620
Management operations . . . . .	17,167	—	—		17,167
Income from investments and other . . . . .	10,339	6,062	—		16,401
	<u>250,126</u>	<u>6,062</u>	<u>—</u>		<u>256,188</u>
<b>Expenses</b>					
Hotel ownership operations . . . . .	157,509	—	—		157,509
Management operations . . . . .	8,067	—	—		8,067
Amortization . . . . .	18,591	—	—		18,591
	<u>184,167</u>	<u>—</u>	<u>—</u>		<u>184,167</u>
<b>Operating income</b> . . . . .	65,959	6,062	—		72,021
<b>Other (income) and expense</b> . . . . .	—	35,754	—		35,754
<b>Interest expense (income) — net</b> . . . . .	15,368	2,870	(21,875)	2(i)	(3,637)
<b>Income (loss) before income tax expense, non-controlling interest and goodwill charges</b> .	<u>50,591</u>	<u>(32,562)</u>	<u>21,875</u>		<u>39,904</u>
<b>Income tax expense (recovery)</b>					
Current . . . . .	8,237	—	8,763	2(j)	17,000
Future . . . . .	3,291	(33,209)	—		(29,918)
	<u>11,528</u>	<u>(33,209)</u>	<u>—</u>		<u>(12,918)</u>
<b>Non-controlling interest share of income of subsidiary</b> . . . . .	2,054	—	—		2,054
<b>Income before goodwill charges</b> . . . . .	37,009	647	13,112		50,768
<b>Goodwill charges</b> . . . . .	1,133	—	—		1,133
<b>Taxes thereon</b> . . . . .	(177)	—	—		(177)
<b>Net income for the period</b> . . . . .	<u>\$ 36,053</u>	<u>\$ 647</u>	<u>\$ 13,112</u>		<u>\$ 49,812</u>
<b>Pro forma basic earnings per share — Note 2(k)</b> . . . . .					<u>\$ 0.62</u>

**FAIRMONT HOTELS & RESORTS INC.**  
**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of U.S. dollars)**

**1. Basis of Presentation**

The accompanying unaudited pro forma consolidated financial statements (pro forma statements) of Fairmont Hotels & Resorts Inc. (FHR) have been prepared by management to give effect to the Plan of Arrangement whereby Canadian Pacific Limited (CPL) will divide its holdings into five separate public companies. This will be done by distributing its investments in Canadian Pacific Railway, CP Ships, PanCanadian Petroleum Limited and Fording Inc. while retaining its investment in Canadian Pacific Hotels & Resorts Inc. (CPH&R). The resulting entity will be renamed Fairmont Hotels & Resorts Inc.

The pro forma statements have been prepared from, and should be read in conjunction with the unaudited consolidated financial statements of CPL and CPH&R as at and for the periods ended June 30, 2001 and 2000 and with the audited consolidated financial statements and notes thereto of CPL and CPH&R for the year ended December 31, 2000 as included in the Arrangement Circular.

The accounting policies used to prepare the pro forma statements are in accordance with those disclosed in the audited consolidated financial statements of CPH&R for the year ended December 31, 2000 and the unaudited consolidated financial statements of CPH&R for the six-month periods ended June 30, 2001 and 2000.

The pro forma statements are not necessarily indicative of the results of operations or financial position which would have occurred had the Plan of Arrangement occurred on the respective dates and, therefore, may not be representative of the operating results or financial condition of future periods.

**2. Pro forma assumptions and adjustments**

The unaudited pro forma consolidated balance sheet as at June 30, 2001 assumes that the Plan of Arrangement was effected on that date. The unaudited pro forma consolidated statements of income for the six-month periods ended June 30, 2001 and 2000 and the year ended December 31, 2000 give effect to the Plan of Arrangement as at January 1, 2000. Adjustments to the pro forma consolidated statements of income have not been reflected in the pro forma consolidated balance sheet.

It is estimated that \$218,752 in non-recurring costs related to the Plan of Arrangement will be incurred by CPL. These costs include incentive payouts, pension and severance costs, professional advisory fees and costs to settle outstanding debt and preferred shares. Of these, \$21,743 (\$nil paid) has been expensed in the June 30, 2001 consolidated income statement of CPL as previously reported and \$11,860 (\$3,294 paid) has been deferred in the consolidated balance sheet of CPL at June 30, 2001 as previously reported. The remaining costs have not been included in the pro forma consolidated statements of income but have been given effect in the pro forma balance sheet. Some of the incentive payouts represent SARs to key employees which may have a continuing impact on operations after the Plan of Arrangement is completed.

In preparing the pro forma statements, no adjustment has been made to reflect the potential decrease in administrative costs arising from transferring corporate functions, which had previously been provided by CPL, to the new public companies.

CPH&R is party to a number of financing and tax structures within the CPL group of companies. In order to dissolve these structures, CPH&R will make certain payments to and obtain certain receipts



**FAIRMONT HOTELS & RESORTS INC.**  
**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands of U.S. dollars)**

**2. Pro forma assumptions and adjustments (Continued)**

from other companies in the CPL group. These transactions will be equal in value and will have no net impact on the financial position of CPH&R. As a result, these transactions have not been reflected in these pro forma financial statements.

The pro forma statements give effect to the following assumptions and adjustments:

- (a) incorporation of CPL's remaining assets and liabilities after distribution of CPL's investment in Canadian Pacific Railway, CP Ships, PanCanadian Petroleum Limited and Fording Inc. CPL's commercial paper has been assumed to be refinanced with long-term debt.
- (b) receipt of a special dividend of \$658,892 from PanCanadian Petroleum Limited and a return of capital of \$461,224 from Canadian Pacific Railway.
- (c) settlement of the outstanding medium-term notes and preferred shares using the proceeds received from the special dividends described in (b). This includes estimated prepayment costs of \$34,262, and an estimated tax benefit of \$11,333.
- (d) settlement of affiliated companies' loans and advances. The net cash required for settlement is shown as a reduction to the cash balance.
- (e) estimated transaction costs relating to the Plan of Arrangement in the amount of \$218,752 (\$146,010 after tax) as described above. All costs not previously paid are shown as a reduction to the cash balance.
- (f) payment of accrued interest and dividends.
- (g) elimination of CPL investment in CPH&R.
- (h) repayment of long-term debt. Based on the historical operations of CPH&R, management believes approximately \$30,000 of cash is necessary to finance operations. Therefore, the excess cash balance of \$454,000 has been assumed to reduce long-term debt. The long-term debt in excess of CPH&R's existing third party long-term debt of \$63,542 will be financed by a long-term bank facility.
- (i) reduction in interest expense and preferred dividends resulting from the adjustments described in (b) through (h).
- (j) increase in income tax expense (recovery) calculated by applying the pro forma effective tax rate to the pro forma interest adjustments noted in (i).
- (k) pro forma basic earnings per share is calculated based on pro forma net income available to common shareholders using the weighted average number of shares outstanding for the respective periods. The weighted average number of shares was adjusted for the expected four-for-one share consolidation. Pro forma fully diluted earnings per share have not been provided, as such amounts are indeterminable at this time because the allocation of the exercise price of current CPL options to FHR's replacement stock options is dependent upon future trading prices of shares of FHR and each of the four new public companies.

**FAIRMONT HOTELS & RESORTS INC.**  
**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(in thousands of U.S. dollars)

**2. Pro forma assumptions and adjustments (Continued)**

- (l) as part of the Plan of Arrangement, FHR will have substantial capital losses for tax purposes that will be available to reduce future cash taxes. These losses have not been reflected in the pro forma financial statements.

**3. United States accounting principles and reporting**

The pro forma consolidated financial statements of FHR have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The material differences between Canadian and United States GAAP relating to recognition and measurement with respect to the pro forma financial statements are explained in Note 24 of the CPH&R consolidated financial statements included in the document.

The following is a reconciliation of pro forma net income under Canadian GAAP to pro forma net income under United States GAAP:

	<u>Six months ended</u> <u>June 30,</u>		<u>Year ended</u> <u>December 31,</u>
	<u>2001</u>	<u>2000</u>	<u>2000</u>
	(unaudited)	(unaudited)	
<b>Pro forma net income — Canadian GAAP</b> . . . . .	\$26,020	\$49,812	\$80,256
Increased (decreased) by			
Gain (loss) on forward rate contract . . . . .	294	—	(1,158)
Computer software costs (net) . . . . .	16,625	—	—
Acquisition costs . . . . .	81	85	168
Translation rates — change in reporting currency . . . . .	(408)	1,249	1,866
Adjusted net income before tax . . . . .	42,612	51,146	81,132
Future income tax expense (recovery) on above items . . . . .	6,832	34	(396)
<b>Pro forma net income — United States GAAP</b> . . . . .	<u>\$35,780</u>	<u>\$51,112</u>	<u>\$81,528</u>
Pro forma basic earnings per share — U.S. GAAP . . . . .	<u>\$ 0.45</u>	<u>\$ 0.64</u>	<u>\$ 1.03</u>